
June 2007

MILITARY PERSONNEL

DOD Needs to
Establish a Strategy
and Improve
Transparency over
Reserve and National
Guard Compensation
to Manage Significant
Growth in Cost



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June 2007

MILITARY PERSONNEL

DOD Needs to Establish a Strategy and Improve Transparency over Reserve and National Guard Compensation to Manage Significant Growth in Cost

Why GAO Did This Study

The Department of Defense (DOD) has increasingly relied on reserve personnel to carry out its military operations. Congress and DOD have taken steps to enhance reserve compensation, such as improving health care benefits. Concerns exist, however, that rising compensation costs may not be sustainable in the future, especially given the nation's large and growing long-range fiscal imbalance. Under the statutory authority of the Comptroller General to conduct work on his own initiative, GAO (1) reviewed how much it has cost the federal government to compensate reserve personnel since fiscal year 2000; (2) assessed the extent to which DOD's mix of cash, noncash, and deferred compensation has helped DOD meet its human capital goals; and (3) evaluated the extent to which DOD's approach to reserve compensation provides transparency over total cost to the federal government. To address these objectives, GAO analyzed budget data and relevant legislation and also interviewed appropriate officials. GAO focused this review on part-time reservists and full-time, active guard and reserve.

What GAO Recommends

GAO is making recommendations to assess the appropriateness of the reserve compensation system and to improve transparency over total reserve compensation costs. DOD partially concurred with GAO's recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-07-828.

To view the full product, including the scope and methodology, click on the link above. For more information, contact John Pendleton at (404) 679-1900 or pendletonj@gao.gov.

What GAO Found

Using fiscal year (FY) 2006 constant dollars, the federal government's total cost to compensate part-time and full-time reserve personnel has increased 47 percent since FY 2000, rising from about \$13.9 billion in FY 2000 to about \$20.5 billion in FY 2006. Most reservists are part-time, and their per capita compensation costs nearly doubled from about \$10,100 in FY 2000 to about \$19,100 in FY 2006. Additionally, a small percentage of reservists work full-time, and their per capita costs increased about 28 percent from FY 2000 to FY 2006. Cash compensation, which servicemembers see in their "paycheck," has increased about 19 percent. However, much of the total growth in compensation is driven by the costs for deferred compensation. These costs tripled over this period, primarily attributed to enhanced health care benefits. Moreover, DOD officials anticipate significant continued growth in health care costs because of the expansion of health care coverage to reserve personnel in FY 2007.

DOD does not know the extent to which its mix of pay and benefits meets its human capital goals in part because it lacks an established compensation strategy to identify the appropriate mix of reserve compensation to maintain its force. DOD and Congress have added pay and benefits using a piecemeal approach that has not been based on an established strategy and that has not adequately considered the appropriateness, affordability, and sustainability of the related costs. These additions have contributed to a shift in the mix of compensation toward more deferred benefits—that is, future compensation such as retirement pay and health care for life. Deferred benefits increased from 12 percent of total reserve compensation in FY 2000 to 28 percent of total compensation in FY 2006. This increase in deferred compensation may not be the most efficient allocation given that fewer than one in four of those who join the reserve will ultimately earn nondisability retirement pay and health care for life. Moreover, DOD does not know the efficiency and effectiveness of these changes in meeting its recruiting and retention goals because it does not have performance measures. Without performance measures, DOD cannot determine the return on its compensation investment or make fact-based choices on how its compensation resources should be allocated.

DOD's approach to reserve compensation does not provide decision makers in Congress and DOD with adequate transparency over total cost for reservists—including the allocation of costs to cash, noncash, and deferred compensation, as well as the cost for mobilized reservists. Despite the fact that sound business practices require adequate transparency over investments of resources, currently costs are found in multiple budgets within three federal departments. Until total reserve compensation costs are compiled in a transparent manner—and decisions are based on established compensation strategies—decision makers will be unable to determine the affordability, cost effectiveness, and ultimately the sustainability of the reserve compensation system. Increased transparency is especially important given the growing fiscal challenges the country faces.

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**United States Government Accountability Office
Washington, DC 20548**

June 20, 2007

Congressional Committees

Questions about the adequacy of National Guard and reserve compensation have been raised as the Department of Defense (DOD) increasingly relies on reservists to carry out its military operations domestically and abroad. In 1973, when the U.S. military first transitioned from a draft to an all-volunteer force, decision makers recognized that military pay needed to be increased to a level that was generally competitive with the civilian sector.¹ Since then, the amount of military pay and benefits has progressively increased for both active duty and reserve servicemembers, although the basic structure of military compensation remains largely unchanged. DOD provides active duty, guard, and reserve servicemembers with a compensation package made up of cash, such as pay and allowances; noncash benefits, such as education assistance and health care; and deferred compensation, such as retirement pensions and benefits. Guard and reserve servicemembers are generally eligible for the same pay and allowance system as their active duty counterparts.²

Since September 2001, the department has called more than 500,000 reservists to active duty in support of the Global War on Terrorism. Given that there are few indications that the current use of reserve forces will decline in the near future, DOD and Congress have taken steps to enhance reserve compensation. For example, Congress expanded health care benefits to all reservists and their families and authorized regular increases in basic pay and additional education benefits for mobilized reservists. In addition, Congress established the Commission on National Guard and Reserves in the national defense authorization act for fiscal

¹The “All-Volunteer pay raise” occurred in 1972, a year before conscription ended. This pay raise increased enlisted and officer pay. For example, the pay of an enlisted servicemember at the E-2 pay grade increased about 87 percent, while pay for an officer at pay grade O-1 increased by about 10 percent.

²There are some differences in compensation between reserve and active duty servicemembers. For example, reservists and their families do not always live in close proximity to military bases, which limits their ability to take advantage of installation-based benefits. In addition, eligible reservists receive their retirement annuity at age 60, while eligible active duty servicemembers receive their annuity immediately upon retirement.

year 2005³ to assess various aspects of the reserves, including compensation, and this commission is expected to address compensation in its final report due by January 2008.

DOD also recently explored the need for changing the military compensation system when the Secretary of Defense formed an independent advisory committee to study compensation in 2005.⁴ Of particular concern to the department was the growth in entitlement spending for things like health care and the appropriateness of the mix of in-service and post service compensation. DOD leaders expressed concern that rising compensation costs may not be sustainable in the future and could crowd out other important investments needed to recapitalize equipment and infrastructure. Similarly, the committee's report stated that the current military compensation system is inefficient, and made recommendations to modernize the compensation system and provide greater flexibility for efficient and effective force management. Specifically, the report made recommendations to change the retirement system and health benefits.

Similarly, we expressed concerns about whether the country's current spending trends are both affordable and sustainable in our 2005 report on the challenges facing the United States in the 21st century.⁵ Given the nation's large and growing long-range fiscal imbalance, we believe it is time for a baseline review of all major federal programs and policies, including military compensation, to ensure that they are efficiently and effectively meeting their objectives and are well adapted to 21st century realities. Many federal programs—such as military compensation—were designed decades ago to address challenges of prior eras related to labor markets, security conditions, organizational structures, and compensation strategies. As a result of the mounting concerns, in 2005 we assessed the active duty compensation system and made a number of recommendations to improve the transparency, reasonableness, appropriateness,

³Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, Pub. L. No. 108-375, § 513 (Oct. 2004).

⁴Defense Advisory Committee on Military Compensation, *The Military Compensation System: Completing the Transition to an All-Volunteer Force* (Arlington, Va.: Apr. 28, 2006).

⁵GAO, *21st Century Challenges: Reexamining the Base of the Federal Government*, GAO-05-352T (Washington, D.C.: February 2005).

affordability, and sustainability of the active duty compensation system.⁶ We found that the piecemeal approach to compensation resulted in a lack of transparency that created an inability to identify total compensation costs and assess how compensation investments are allocated to cash, noncash, and deferred compensation. We also reported that the federal government's total cost to provide active duty compensation was substantial and rising, totaling about \$158 billion, which was about \$112,000 per servicemember in fiscal year 2004. We recently updated these costs and found that in fiscal year 2006 the federal government spent about \$173 billion or about \$126,000 per servicemember—an increase of about 32 percent from fiscal year 2000. See appendix I for more detailed information on active duty compensation costs and the allocation of those costs to cash, noncash, and deferred compensation.

We recognize that compensation is an important recruiting and retention tool, particularly during a time of increased military operations, and any proposed changes must be given careful consideration. In light of the evolving 21st century realities, under the statutory authority of the Comptroller General to conduct evaluations on his own initiative, we (1) identified how much it has cost the federal government to provide cash, noncash, and deferred benefits to compensate reserve personnel since fiscal year 2000; (2) assessed the extent to which DOD's mix of cash, noncash, and deferred compensation has helped DOD meet its human capital goals; and (3) assessed the extent to which DOD's approach to reserve compensation provides transparency over total cost to the federal government.

In conducting this review, we focused our scope on part-time, drilling reservists, and full-time reservists serving in the Active Guard and Reserve

⁶ GAO, *Military Personnel: DOD Needs to Improve the Transparency and Reassess the Reasonableness, Appropriateness, Affordability, and Sustainability of Its Military Compensation System*, GAO-05-798 (Washington, D.C.: July 19, 2005).

program of the Selected Reserve.⁷ We excluded guard and reserve members who were mobilized⁸ from our cost estimates, because, once reservists are mobilized, their compensation costs are paid out of the active components' budgets. Our review included the years from fiscal year 2000 through fiscal year 2006 to capture costs prior to the increased use of reservists and changes to compensation policy. To identify how reservists are compensated and how much it has cost the federal government to provide cash, noncash, and deferred compensation, we analyzed relevant regulations, legislation, and budget justification books, and also interviewed appropriate officials at DOD and the Department of Veterans Affairs about costs not presented in budgets, such as the accrued costs for non-Medicare-eligible retirees' health care. In addition, we calculated the costs of some types of compensation, such as the federal income tax advantage. To determine per capita costs, we divided the total cost of the part-time population by an adjusted average strength of the part-time reservists—which we calculated by subtracting the average number of mobilized reservists from the average strength for each fiscal year. For the full-time reservists, we divided their total cost by their average strength. To assess the extent to which DOD's mix of cash, noncash, and deferred compensation helped DOD meet its human capital goals, we reviewed applicable directives, policy, and guidance and interviewed DOD officials to determine whether the current reserve compensation system follows those directives, policy, and guidance. We also reviewed DOD directives and guidance as well as federal government standards such as the Government Performance and Results Act of 1993. To assess the extent to which DOD's approach provided transparency over total costs to the federal government, we reviewed applicable directives,

⁷ DOD's Selected Reserve is made up of members from the Army Reserve, Army National Guard, Air Force Reserve, Air National Guard, Marine Corps Reserve, and Navy Reserve. We did not include the Coast Guard Reserve. The Selected Reserve is the first category of the reserves that is subject to recall to active duty to augment the active component in time of war or national emergency. For this reason, the Selected Reserve has priority for training, equipment, and personnel over all other categories of reservists. The Selected Reserve consists of units and individuals that serve on an "active reserve" status. Unlike other categories of the reserves, part-time Selected Reservists are required to maintain readiness through scheduled drilling and training, usually 1 weekend a month and 2 weeks a year. Full-time Selected Reservists serve as full-time administration and support staff to the various reserve components.

⁸ Mobilization is the process by which the armed forces are brought into a state of readiness for war or national emergency or to support some other operational mission. In this report, we use the term mobilization to refer to the process of calling up reserve components for active-duty service. We use the term mobilized reservist to refer to a reservist who has received orders to active duty.

policy, and guidance and interviewed DOD officials to determine whether the current reserve compensation system follows those directives, policy, and guidance. We reviewed how compensation costs are presented to decision makers. To update our previous work on the cost to the federal government of compensating active duty servicemembers, we (1) interviewed appropriate officials, (2) analyzed and compiled data for fiscal years 2000 through 2006 from military personnel and operations and maintenance budget justification books, (3) estimated the total federal tax expenditure for military compensation and the costs of future veterans' benefits for current active duty servicemembers, and (4) requested estimates of accrual health care costs for retirees and their dependents from DOD's Office of the Actuary and health care costs for active duty servicemembers and their dependents from DOD's Office of Health Affairs. We conducted our review from October 2006 through May 2007 in accordance with generally accepted government auditing standards. More detailed information on our scope and methodology is provided in appendix II.

Results in Brief

The total cost to the federal government to provide compensation for part-time and full-time reservists has risen about 47 percent, from about \$13.9 billion in fiscal year 2000 to about \$20.5 billion in fiscal year 2006 in constant fiscal year 2006 dollars.⁹ Most reservists are part time, and their per capita total cost, including cash, noncash, and deferred compensation, almost doubled, from about \$10,100 in fiscal year 2000 to about \$19,100 in fiscal year 2006. In addition to part-time reservists, the reserve workforce includes a small percentage of reservists who work full time, and their per capita total compensation cost increased 28 percent, from about \$90,100 in fiscal year 2000 to about \$115,200 in fiscal year 2006.¹⁰ Much of this growth can be attributed to the cost to provide reservists with deferred compensation. From fiscal year 2000 to fiscal year 2006, deferred

⁹ Unless noted, all costs have been adjusted for inflation and are presented in fiscal year 2006 constant dollars. To calculate the costs in constant dollars, we used an official DOD source, the National Defense Budget Estimates for fiscal year 2007, published by the Office of the Under Secretary of Defense (Comptroller), for military pay deflators or price indices. There are several other potential price indices or deflators that could be used to adjust for inflation. Using the other indices would have shown a similar or larger increase in real spending for compensation.

¹⁰ The per capita costs of full-time reservists are slightly lower than the per capita costs for active duty servicemembers, as shown in appendix I. This is because some costs are not associated with full-time reservists, such as accrual costs for veterans' benefits or costs for installation-based benefits, such as exchanges and family support programs.

compensation costs more than tripled, increasing from \$1.7 billion to \$5.8 billion. This growth is largely attributed to additional health care benefits that have been provided for future reserve retirees and their families. For example, Congress enhanced retirees' health care benefits in fiscal year 2001 by adding health care benefits for life. These increases in cost are mainly driven by entitlements that are unlikely to subside at the end of the ongoing military operations in Iraq and Afghanistan. For example, DOD officials anticipate significant future growth in the cost of noncash compensation as a result of the recent expansion of health care benefits for reservists and their families, which will provide continuation of health coverage as reservists transition on and off of active duty.

DOD does not know the extent to which its mix of cash, noncash, and deferred compensation is meeting its human capital goals of recruiting and retaining a high-quality force, in part, because it lacks an established compensation strategy and performance measures to identify the appropriate mix of reserve compensation needed to maintain its force. The mix of reserve compensation has shifted toward more deferred benefits, increasing from 12 percent of total reserve compensation in fiscal year 2000 to 28 percent in fiscal year 2006. This increase in deferred compensation may not provide the most efficient allocation or the best return on the compensation investment. Studies indicate cash is not only preferred to noncash and deferred compensation, but it is also a more efficient recruiting and retention tool for active duty servicemembers.¹¹ Furthermore, fewer than one in four part-time reservists will receive these costly deferred benefits, given that about 24 percent of those who join the guard and reserve will ultimately earn nondisability retirement pay and health care for life. We have previously found that programs, such as compensation systems, need performance measures and goals to guide decision makers and program policy.¹² In addition, DOD's personnel and readiness strategic plan states the importance of identifying requirements and tailoring compensation and other programs to achieve objectives and

¹¹ John T. Warner and Saul Pleeter, "The Personal Discount Rate: Evidence from Military Downsizing Programs," *The American Economic Review* (Mar. 2001); Defense Advisory Committee on Military Compensation, *The Military Compensation System: Completing the Transition to an All-Volunteer Force*, (Arlington, Va.: Apr. 28, 2006); DOD, *9th Quadrennial Review of Military Compensation vol I* (Washington, D.C.: May 17, 2002); and Commission on the National Guard and Reserves, *Strengthening America's Defenses in the New Security Environment* (Mar. 1, 2007).

¹² GAO, *A Model of Strategic Human Capital Management*, GAO-02-373SP (Washington, D.C.: Mar. 15, 2002).

of continuously reviewing personnel management.¹³ In 1979 and again in 2005, we identified DOD's lack of a compensation strategy as a problem in establishing a basis for evaluating changes to the total compensation system.¹⁴ Moreover, the situation today is further complicated by the frequency of mobilizations in support of the ongoing operations and the components' recent recruiting challenges. Congress and DOD have taken a piecemeal approach to military compensation by adding various benefits—such as health care—and cash—such as bonuses and increases to basic pay—to address current recruiting problems and to take care of servicemembers over their lifetime. Furthermore, they have not adequately considered the appropriateness, affordability, and sustainability of the related cost of these additions. Determining the return on investment for compensation and the impact of compensation on recruiting and retention is not an easy task. However, given that reserve compensation is becoming increasingly costly, DOD does not know if the additions to the compensation system are appropriate to ensure that the reserve components recruit and retain a high-quality workforce in sufficient numbers and the federal government has the best return on investment. DOD officials have stated during testimony before Congress that adding deferred compensation, such as TRICARE for life, is not their preference. However, until DOD establishes a strategy for its compensation system and develops performance measures to evaluate the efficiency of compensation tools, DOD and Congress will be unable to make informed decisions about which compensation tools and mix will provide the best return on investment, be sustainable in the long-term, and be effective in recruiting and retaining the future reserve force.

DOD's approach to reserve compensation does not provide decision makers in Congress and DOD with adequate transparency over total cost for providing reserve compensation—including the allocation of costs to cash, noncash, and deferred compensation and the total cost of mobilized reservists. Despite the fact that sound business practices require adequate transparency over investments of resources, there is no single source that provides the total cost for reserve compensation. We have also previously

¹³ Under Secretary of Defense for Personnel and Readiness (OUSD—P&R), Strategic Plan, FY2006-2011.

¹⁴ GAO, *Military Personnel: DOD Needs to Improve the Transparency and Reassess the Reasonableness, Appropriateness, Affordability, and Sustainability of Its Military Compensation System*, GAO-05-798 (Washington, D.C.: July 19, 2005); *The Congress Should Act to Establish Military Compensation Principles*, GAO/FPCD-79-11 (Washington, D.C.: May 9, 1979).

reported there is not a single source for active duty compensation costs. In fact, reserve compensation costs are found in three different federal departments—DOD, the Department of Veterans Affairs, and the Department of Treasury. Furthermore, within DOD, compensation costs are found in three different budgets—the reserve components' military personnel, active components' military personnel, and active components' operation and maintenance. For example, specific types of compensation, such as basic pay and health care, are located in different budgets, making it difficult for decision makers to see the full cost of all the sources of compensation provided to reservists. In addition, reservists who were mobilized to support the war on terrorism have been paid out of the active components' budgets through supplemental funding during the mobilization, which further dilutes decision makers' ability to see the full picture of the cost of reserve compensation to the federal government. DOD is taking measures to address some of these problems. For example, DOD and the services are in the process of implementing a system, known as the Defense Integrated Military Human Resources System, to consolidate their personnel and pay systems. This consolidation may improve transparency by integrating all human resource information for active, guard, and reserve personnel of all the services; however, we have recently reported that this task is proving to be difficult to complete because each service has unique requirements.¹⁵ Nevertheless, DOD has no plans to compile into one place, that is readily accessible, the total cost for reserve personnel compensation, including mobilized reservists, and the allocation of these costs among cash, noncash, and deferred compensation. Such a compilation could enable decision makers to accurately assess these costs and to manage the total force as well as efficiently and effectively make fact-based human capital adjustments. Until total cost for reserve compensation is compiled in a transparent and easily accessible manner, decision makers will be unable to determine the affordability and efficiency of the reserve compensation system. This is especially important given the growing fiscal challenges the country faces.

We are recommending that DOD take steps to assess the appropriateness of the reserve compensation system and to improve transparency over total reserve compensation costs. In commenting on a draft of this report,

¹⁵ GAO, *Defense Business Transformation: A Comprehensive Plan, Integrated Efforts, and Sustained Leadership are Needed to Assure Success*, GAO-07-229T (Washington, D.C.: Nov. 16, 2006); and *DOD Systems Modernization: Management of Integrated Military Human Capital Program Needs Additional Improvements*, GAO-05-189 (Washington, D.C.: Feb. 11, 2005).

DOD partially concurred with our recommendations. In response to our specific recommendation to develop a compensation strategy and performance measures, the department partially concurred and described several steps that it had taken including chartering an independent commission to review military compensation. In addition, the department noted that it has primarily sought cash compensation in recent years, and that the increases in deferred compensation were not sought by DOD. In response to our recommendation to improve transparency, DOD felt that the Office of Management and Budget could more appropriately address this recommendation because it has visibility over all parts of the budget. We continue to believe that DOD needs an explicit compensation strategy and performance measures to better position the department to make business case arguments for or against changes to the compensation system, and provide fact-based evidence regarding the efficiency of the allocation of cash, noncash, and deferred compensation. We also continue to believe that DOD is in the best position to exercise ownership over total compensation costs and, accordingly, should compile and present total compensation costs as part of its budget submission. In addition, the department provided several technical comments which we have incorporated where appropriate. DOD asked that we include these technical comments in our report, and our response to them is shown in appendix IV.

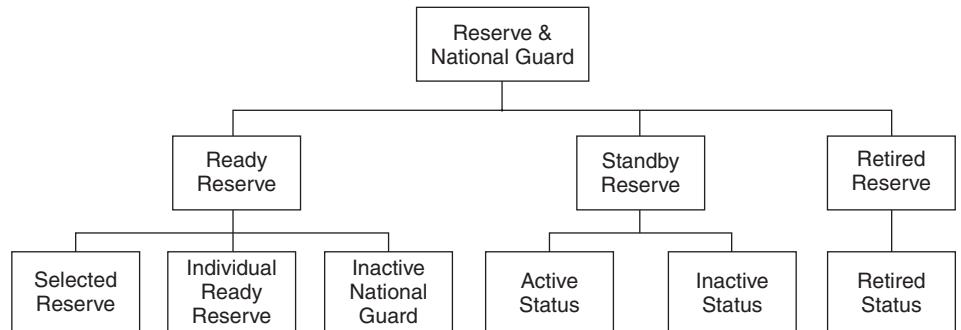
Background

DOD's National Guard and reserve personnel are assigned to the Ready Reserve, Standby Reserve, or Retired Reserve.¹⁶ At the end of fiscal year 2006, DOD had approximately 1.1 million guard and reserve members in the Ready Reserve. The Ready Reserve is comprised of military members of the National Guard and reserve, organized in units, or as individuals,

¹⁶We did not include the Standby or Retired Reserve in our study. The Standby Reserve are not required to perform training, and are not part of units, but make up a pool of trained individuals who could be mobilized if necessary to fill needs in specific skills. These reservists are either on active or inactive status. Active status refers to those temporarily assigned for hardship or other cogent reasons, those not having fulfilled their military service obligation or those retained in active status when provided for by law, or those members of Congress and others identified by their employers as "key personnel" and who have been removed from the Ready Reserve because they are critical to the national security in their civilian employment. The Inactive Status List is comprised of those reservists who are not required by law or regulation to remain in an active program and who retain their reserve affiliation in a nonparticipating status, and those who have skills which may be of possible future use. The Retired Reserve consists of all reserve officers and enlisted personnel who receive or are eligible for retired pay on the basis of active duty or reserve service.

who are subject to recall for active duty to augment the active component in time of war or national emergency. Figure 1 shows the three subcategories that exist within the Ready Reserve: the Selected Reserve, the Individual Ready Reserve, and the Inactive National Guard.

Figure 1: Organizational Chart of the National Guard and Reserve



Source: GAO.

As of fiscal year 2006, the Selected Reserve had a total of about 826,000 members. The Selected Reserve largely consists of units and individuals designated by their respective services that serve in an “active drilling” status. These units and individuals are required to maintain readiness through scheduled drilling and active duty for training, usually 1 weekend a month and 2 weeks a year. They also have priority for training, equipment, and personnel over all other categories of reservists. From fiscal years 2000 through 2006, about 9 percent of the Selected Reserve average strength served in the Active Guard and Reserve program as full-time reservists. These full-time reservists perform duties associated with organizing, administering, recruiting, instructing, or training the various reserve components. The Individual Ready Reserve and the Inactive National Guard do not currently have these drilling and training requirements according to DOD policy and are comprised principally of individuals who have had training, previously served in the active component or in the Selected Reserve, or have some period of their military service obligation remaining.¹⁷ These members may voluntarily

¹⁷ Within the Inactive National Guard, Army National Guard personnel in an inactive status not in the Selected Reserve will mobilize with their units if they are attached to a specific National Guard unit but do not participate in training activities. In order for these personnel to remain members of the Inactive National Guard they must muster once a year with their assigned unit.

participate in training for retirement points and promotion with or without pay.

DOD's selected reservists serve in one of six reserve components: the Army National Guard, the Army Reserve, the Navy Reserve, the Air National Guard, the Air Force Reserve, and the Marine Corps Reserve. The Army National Guard and the Air National Guard comprise what is known as the National Guard. The National Guard is unique in that it has dual missions, both federal and state; when not in federal service, it is available for use by the governor as provided by the U.S. Constitution and laws of the state. The National Guard is the only military force immediately available to a governor in times of emergency, including civil unrest and natural or manmade disasters. Under state law, the National Guard provides protection of life and property and preserves peace, order, and public safety.

Since the end of the Cold War, the roles and contributions of the reserve force have changed. In the post-World War II era, DOD's reserve operated primarily as a strategic force—a force management tool that was rarely activated. For example, from 1945 to 1989, reservists were called to active duty as part of a mobilization by the federal government only four times, an average of less than once per decade. Since 1990, reservists have been mobilized by the federal government six times, an average of nearly once every 3 years. Additionally, since September 11, 2001, reserve forces have been used extensively to support the Global War on Terrorism. In fact, about 500,000 reservists have been mobilized, primarily for contingency operations in Afghanistan and Iraq. As a result of the change in use, reserve units are becoming more integrated into military operations, calling for a new relational model between the active and reserve components, which changes the nature of reserve service to an operational role for the reserve components and requires more frequent mobilizations as well as incorporation into the total force.

To attract and retain sufficient numbers and quality of guard and reserve personnel, DOD provides reserve personnel with a mix of cash, noncash, and deferred compensation based on duty status. When in part-time drilling status, reservists receive cash compensation or basic pay on a prorated basis as well as other cash incentives, such as retention bonuses

or special pays for proficiency in an area.¹⁸ Part-time reservists are also entitled to noncash benefits, such as unlimited access to commissaries, a premium-based health care benefit for reservists and their dependents, and educational benefits. Lastly, part-time reservists who become retirement eligible qualify for retirement benefits including a pension, health care for life, and access to installation-based benefits such as exchanges. The key difference in deferred benefits between active duty servicemembers and part-time reservists is when they become eligible to receive these benefits. For example, a part-time reservist becomes eligible for a retirement annuity at age 60; in contrast, active duty servicemembers become eligible for retirement benefits at any age after completing a minimum of 20 years of service.

Reservists activated for contingency operations are eligible to receive the same compensation and benefits as active duty personnel including regular military compensation—basic pay, housing and subsistence allowances, and the federal tax advantage¹⁹—depending on their pay grade and years of service—and special and incentive pays. In addition, mobilized reservists are eligible for full health care benefits for themselves and their dependents. Table 1 illustrates this mix and compares it to the compensation provided to active duty servicemembers. In addition, appendix III contains more details about the compensation available for reserve personnel.

¹⁸ Part-time reservists' cash compensation—basic pay and special pays—is based on the 1/30th rule. That is, the member is entitled to 1/30th of the monthly pay for each day of duty or period of inactive duty.

¹⁹ Allowances for housing and subsistence are not taxed. In addition, servicemembers who serve 1 day in a combat zone are eligible to exclude, for tax purposes, all of their pay and allowances earned for the month. Officers' tax exclusion is limited to the highest amount earned by enlisted personnel plus hostile fire and imminent danger pay.

Table 1: Types of Compensation for Servicemembers, as of Fiscal Year 2007

	Reserve part-time in drill/annual training	Reserve full-time support (AGR)	Active component
Basic pay	X	X	X
Housing allowance	^a	X	X
Subsistence allowance	^b	X	X
Subsistence in kind	X	X	X
Special and incentive pays	X	X	X
Bonuses	X	X	X
Clothing allowance	X	X	X
Permanent change of station travel		X	X
Tax advantage (housing and subsistence allowances are nontaxable)	^c	X	X
TRICARE (health care)		X	X
TRICARE Reserve Select	X ^d		
TRICARE Dental	X ^d	X	X
Veterans Affairs life insurance	X	X	X
Montgomery GI Bill (education benefit) ^e	X	X	X
Tuition assistance	X	X	X
Student loan repayment	X	X	X
Veterans Affairs home loan	X ^f	X	X
Commissaries and exchanges	X	X	X
Morale, welfare, and recreation services	Space available ^g	X	X
Family support centers	Space available	X	X
Child care centers	Space available	X	X
Legal assistance	Space available	X	X
Retirement	X	X	X
Veterans Affairs health care ^h	X	X	X
Disability retirement or separation ⁱ	X	X	X

Source: GAO analysis.

^aThe member is entitled to a housing allowance for annual training, but the rate is provided under Basic Allowance for Housing/Reserve Component. In addition, if the annual training period is 31 days or more, then the member would receive a housing allowance.

^bPart-time enlisted personnel may receive rations-in-kind while drilling. During annual training, reservists receive a subsistence allowance.

^cReservists receive the tax advantage while on annual or active duty training.

^dReservists are eligible to enroll for TRICARE Reserve Select and TRICARE Dental Plan for a monthly premium; see appendix III for more details.

Cost to Compensate Guard and Reserve Personnel Has Increased Significantly Since Fiscal Year 2000

^aThe Department of Veterans Affairs administers this educational benefit; however, the services are responsible for the cost of the benefit.

^bEligibility determined by 2 years of active duty service, not less than 90 days mobilized, or 6 years of reserve service.

^cAlthough eligible, the commander can set priority for active duty servicemembers if the facilities or services can not handle the demand.

^dMember qualifies based on service in active military or mobilization.

^eServicemembers may qualify for both DOD and Veterans Affairs disability retirement.

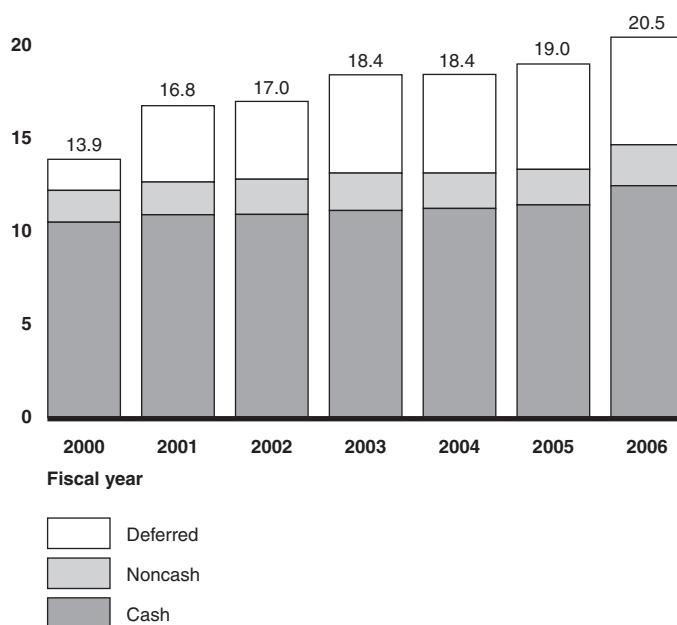
The total cost to the federal government to compensate both part-time and full-time National Guard and reserve personnel increased significantly, about 47 percent, from fiscal year 2000 to fiscal year 2006. The cost increased from about \$13.9 billion in fiscal year 2000 to about \$20.5 billion in fiscal year 2006, as shown in figure 2. This cost includes (1) cash compensation, such as basic pay and other allowances; (2) noncash compensation, such as education assistance and health care; and (3) deferred compensation, that is, benefits that promise future compensation like retirement pay and health care. However, this cost does not include all compensation, such as accrual costs for veterans' benefits.²⁰

²⁰Veterans' benefits include health care, compensation and pension, education and training, vocational rehabilitation, home loans, life insurance, burial benefits, and dependents' and survivors' benefits. Reservists who have served honorably on active duty establish veteran status and may therefore be eligible for veterans' benefits including health care and monthly compensation, depending on the length of active military service and other eligibility factors. In addition, reservists who are never called to active duty may qualify for some veterans' benefits such as education, home loan guaranty, vocational rehabilitation, disability pension, and life insurance. In the absence of a formal actuarial model, we were unable to determine the deferred or accrual costs for reservists' benefits provided by the Department of Veterans Affairs. Furthermore, the Veterans Affairs budget does not distinguish between active and reserve cost, which prevented us from associating current noncash costs for programs such as vocational rehabilitation and disability pension with reserve compensation. In addition, we decided to associate all installation-based noncash benefits (such as commissaries and morale, welfare, and recreation centers) with the active components' compensation costs although reservists are eligible to take advantage of those benefits. As a result, our compensation cost for reserve and guard personnel is likely understated.

Figure 2: Total Compensation Cost of Reserve Components, Fiscal Years 2000-2006

Fiscal year 2006 constant dollars in billions

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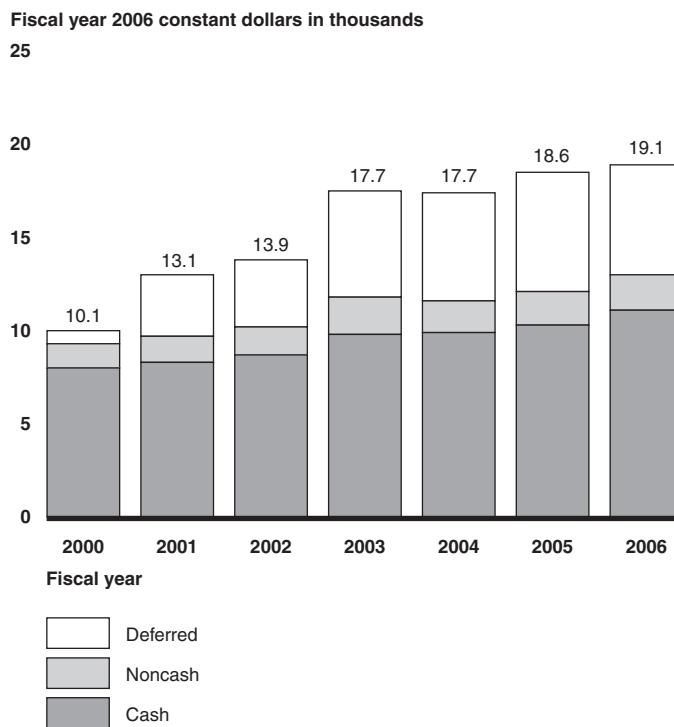
Source: GAO.

Over this same time period, the per capita cost to the federal government for part-time drilling reservists²¹ almost doubled, from about \$10,100 in fiscal year 2000 to about \$19,100 in fiscal year 2006, as shown in figure 3. This per capita cost is an average of what it cost the government to compensate servicemembers; it is not what the servicemembers “receive in their paycheck.” Servicemembers’ individual cash compensation will vary significantly depending on individual pay grade and other factors such as years of service or if the servicemember has dependents. The compensation cost does not include all of the cost needed to support

²¹Part-time, drilling, reservists refer to reserve and National Guard personnel who drill 1 weekend a month and participate in active duty training for 2 weeks a year. These personnel are referred to as pay groups A and B in the services budget justification books, and they also may participate in special and school training, such as operational, refresher, and proficiency training. In addition, we included pay groups F and P in our calculations.

additional servicemembers, because it does not include those costs associated with recruiting and training personnel.

Figure 3: Per Capita Costs for Part-Time Reservists by Compensation Type, Fiscal Years 2000-2006



This increase in per capita cost occurred during a time when the average strength of part-time drilling reservists declined by about 6 percent, from about 746,400 reservists in fiscal year 2000 to 699,800 reservists in fiscal year 2006. This decline in the average number of part-time personnel may be attributed to many factors, such as the Navy's restructuring of its force, as part of its Active-Reserve Integration process, which reduced the number of part-time reservists. Moreover, Army National Guard and Army Reserve officials attributed the decline in average strength to their recruiting difficulties.

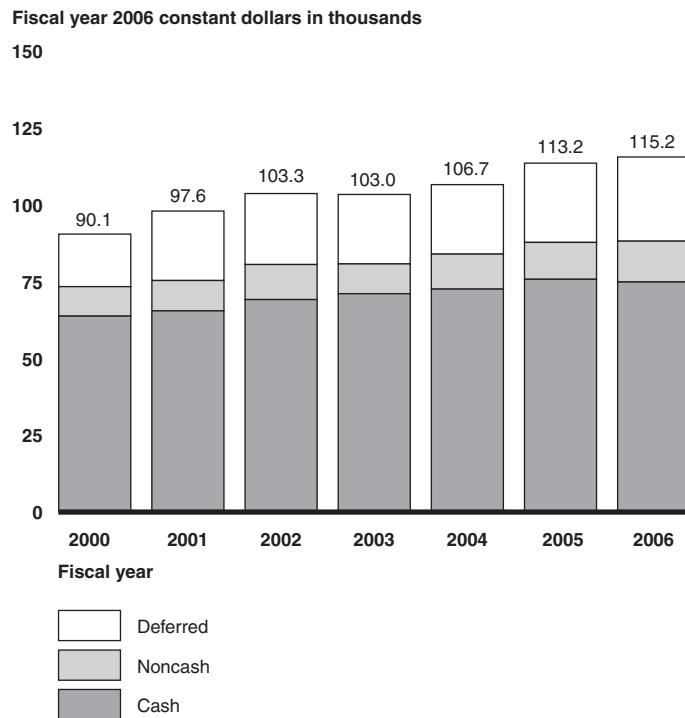
In addition to part-time reservists, about 9 percent of reservists work full-time, and their per capita cost to the federal government also increased, as shown in figure 4, from about \$90,100 in fiscal year 2000 to about \$115,200

in fiscal year 2006, about 28 percent.²² Although full-time reservists are eligible to receive the same compensation as active duty servicemembers, the per capita cost for compensation presented here is less than the per capita cost for an active duty servicemember. This is because some costs were not associated with the full-time reservists, such as accrual costs for veterans' benefits or costs for installation-based benefits, such as exchanges and family support programs. This increase is similar to the trends in active duty per capita compensation cost (see app. I for similar data on active duty servicemembers' compensation cost). Unlike their part-time counterparts, the full-time reservists' average strength increased by about 9 percent during this time period, increasing from about 64,500 in fiscal year 2000 to 70,300 in fiscal year 2006.²³

²² Full-time reserve and National Guard personnel are referred to as "Administration and Support" in the budget justification books, but are referred to as active guard and reserve (AGR) or full-time support (FTS) by some services. These Selected Reservists are on active duty or full-time National Guard duty to organize, administer, recruit, instruct, and train reserve component members.

²³ The percentage of full-time reservists varies by component. For example, in fiscal year 2006 the Navy Reserve and the Air National Guard had the highest percentage of full-time reservists, about 12 and 18 percent, respectively; while the Air Force Reserve and Marine Corps Reserve had the lowest percentage, about 3 and 6 percent, respectively.

Figure 4: Per Capita Cost for Full-time Reservists by Compensation Type, Fiscal Years 2000-2006



The growth in reserve compensation overall is primarily attributed to increases in deferred compensation, although cash and noncash compensation also increased.

- **Deferred compensation** represents more of overall reserve compensation costs in fiscal year 2006—increasing from 12 percent in fiscal year 2000 to 28 percent in fiscal year 2006. Specifically, deferred compensation more than tripled, increasing from 1.7 billion in fiscal year 2000 to 5.8 billion in fiscal year 2006. This increase was largely due to the increase in new health care benefits for the Medicare-eligible population, known as TRICARE for Life.²⁴ Further, DOD estimates that TRICARE for Life represented 48 percent of the increase in DOD's

²⁴ In fiscal year 2001, Congress expanded retiree health care coverage to supplement Medicare.

spending on health care from fiscal years 2000 through 2005.²⁵ Retirement pay accrual²⁶ also contributed to the growth in deferred compensation, and its increase was a result of across-the-board increases in the basic pay rate. Additionally, in fiscal year 2004 Congress enhanced disability retirement benefits to allow concurrent receipt—simultaneous payment—of DOD retirement pay and Department of Veterans Affairs disability benefits. Prior to this enhancement, retirees had to decide whether to receive DOD's full, but generally taxable, retirement pay or receive the nontaxable veteran's disability pay, which would reduce or offset dollar-for-dollar DOD's retirement pay. As a result of this expansion of benefits, the Treasury Department, through general revenues, was required to cover the additional military retirement cost of providing concurrent receipt, which was about \$251 million in fiscal year 2006.

- **Noncash benefits** also increased—about 29 percent—primarily due to increased costs for full-time reservists' health care benefits and expanded health care benefits for part-time reservists and their families.²⁷ Since fiscal year 2000, noncash benefits have represented about 11 percent of overall compensation costs.
- **Cash compensation**, including basic pay and enlistment and reenlistment bonuses, increased about 19 percent between fiscal years 2000 and 2006. This increase is largely a result of across-the-board increases in basic pay. In addition, the reserve components also experienced significant growth in the reserve incentive program. Specifically, the costs of reenlistment bonuses increased over 1000 percent, rising from about \$36 million in fiscal year 2000 to almost half a billion dollars in fiscal year 2006. Cash compensation decreased from 76 percent of overall compensation costs in fiscal year 2000 to 61 percent of cost in fiscal year 2006.

²⁵GAO, *DOD's 21st Century Health Care Spending Challenges*, GAO-07-766CG (Washington, D.C.: Apr. 18, 2007).

²⁶An accrual cost is an estimated future cost for current servicemembers to receive an entitled benefit. Accrual accounting methods are used to calculate retirement and disability pay and retirement health care benefits.

²⁷Costs for the Reserve Officers' Training Corps and Junior Reserve Officers' Training Corps were included in the reserve components budget in fiscal year 2000. In fiscal year 2006, these costs were moved to the active components budget and slightly offset the growth of noncash and cash benefits.

Table 2 provides a detailed list of the components of reserve compensation and how they have changed from fiscal year 2000 to fiscal year 2006.

Table 2: Summary of Changes in Reserve Compensation Costs for Fiscal Years 2000-2006

Components of compensation	Fiscal year 2000	Fiscal year 2006	Percentage change	Percentage of total compensation (Fiscal year 2006)
Cash Compensation (in billions)				
<i>Part-Time</i>				
Annual & inactive duty training pay	\$4.7	\$4.2		
School and special training pay	1.5	2.0		
Other special program pay ^a	.2	.1		
Reserve incentive programs	.1	.9		
<i>Full-Time</i>				
Pay & allowance	4.5	5.7		
Subsistence allowance	.04	.04		
Tax expenditure	.3	.4		
Reserve incentive programs	.002	.02		
Other ^b	.04	.02		
Total cash	10.5	12.5	18.8	61
Noncash benefits (in billions)				
<i>Part-Time</i>				
Education	.2	.5		
Subsistence-in-kind	.1	.08		
Clothing & uniforms	.3	.2		
Health care	--	.03		
Travel	.5	.4		
<i>Full-Time</i>				
Subsistence-in-kind	.003	.0002		
Clothing & uniforms	.009	.005		
Health care	.5	.7		
Other ^c	.1	.2		
Total noncash	1.7	2.2	29.1	11

Fiscal year 2006 constant dollars

Components of compensation	Fiscal year 2000	Fiscal year 2006	Percentage change	Percentage of total compensation (Fiscal year 2006)
Deferred benefits (in billions)				
<i>Part-Time</i>				
Retired pay accrual	.5	.9		
Department of the Treasury	--	.07		
Retired health care accrual	.09	2.7		
<i>Full-Time</i>				
Retired pay accrual	.8	1.0		
Department of the Treasury	--	.2		
Retired health care accrual	.3	.8		
Total deferred	1.7	5.8	245.6	28
Total compensation (in billions)	\$13.9	\$20.5	47.0	
Total part-time per capita	\$10,100	\$19,100	88.5	
Total full-time per capita	\$90,100	\$115,200	27.8	

Source: GAO analysis of DOD data.

Note: Numbers may not total due to rounding.

^aIncludes Reserve Officers' Training Corps, Health Professions Scholarship program, Medical Financial Assistance program, Platoon Leaders Class, Branch Officers Basic Course, Nurse Candidate Bonus Program, and Chaplain Candidate program.

^bIncludes \$30,000 lump sum bonus and transition benefits.

^cIncludes travel, death gratuities, disability and hospitalization benefits, adoption expenses, and federal workplace transportation subsidy.

In addition to calculating reserve compensation cost, we also updated our previous work on active duty compensation costs and found those costs have also increased, rising from about \$131.7 billion to \$173.2 billion (32 percent) from fiscal year 2000 to fiscal year 2006. Cash compensation accounted for 48 percent of total active duty compensation costs, while noncash and deferred compensation accounted for 21 and 31 percent, respectively. In fiscal year 2006, it cost the federal government more than \$126,000, on average, to provide annual compensation to active duty

servicemembers.²⁸ See appendix I for more information on active duty compensation cost. When taken together, active and reserve compensation costs have grown markedly since 2000, and these costs may not be sustainable within the context of DOD's total budgetary needs and the nation's increasing fiscal imbalance. Total military compensation for the active and reserve components increased from about \$147 billion in fiscal year 2000 to \$195 billion in fiscal year 2006—about 33 percent.

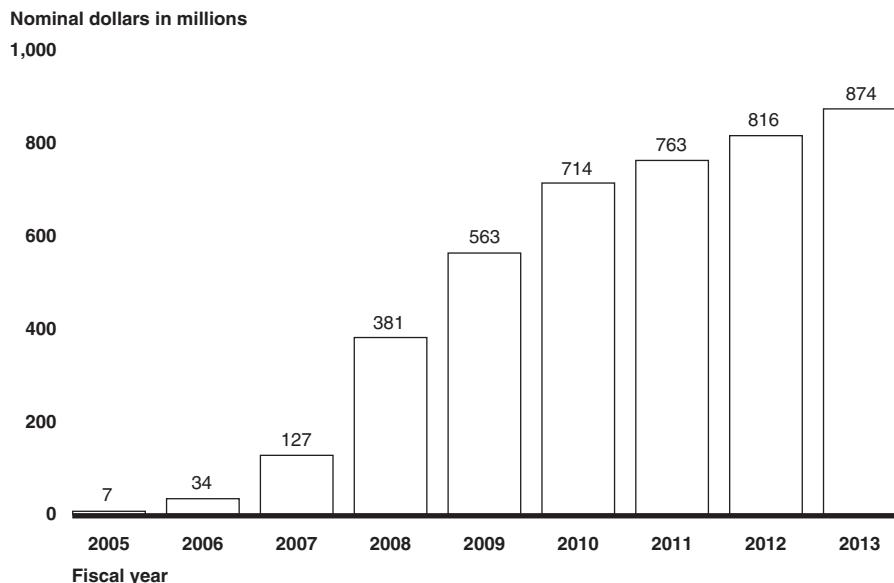
Much of these increases in compensation costs are not directly driven by ongoing operations in Iraq and Afghanistan and, as a result, it is not anticipated that the costs will significantly recede after the operations in Iraq and Afghanistan subside. While some of the costs are directly related to the ongoing operations—such as the pay for mobilized reservists and enlistment and reenlistment bonuses—most of the significant increases were made to basic pay and deferred compensation, such as retirement pay and health care for retirees, which will not recede after ongoing operations are ended. An example of a recently expanded noncash compensation benefit that will not recede after the ongoing military operations are completed is the premium-based health care benefit for reservists and their dependents known as TRICARE Reserve Select. This benefit will provide a continuation of health coverage as National Guard and reserve personnel transition on and off of active duty. DOD officials anticipate that TRICARE Reserve Select will result in significant future growth in the cost of noncash compensation.²⁹ According to DOD

²⁸According to DOD, about 95,000 mobilized reservists were paid out of active duty cash compensation costs in fiscal year 2006. Our active duty per capita cost estimates do not take these mobilized reservists into account, because our per capita costs are based on active duty end strength. If you considered these reservists, the average costs to provide compensation would be lower.

²⁹In the National Defense Authorization Act for Fiscal Year 2004, Congress established TRICARE health care coverage for unemployed reservists or those ineligible for health care coverage from their civilian employer. However, this provision was not implemented by DOD. The Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 included provisions for reservists to receive 1 year of TRICARE standard for each period of 90 consecutive days served in a contingency operation given that the reservists signed a commitment to serve continuously in the Selected Reserve during the covered period. When implemented by DOD, the program was called TRICARE Reserve Select. The National Defense Authorization Act for Fiscal Year 2006 enhanced this coverage by creating a three-tier system of eligibility, based on the percentage of co-pay. See appendix III for further details. The John Warner National Defense Authorization Act for Fiscal Year 2007 further expanded the program to give access to the benefit to all Selected Reservists and eliminated the tiered eligibility system. TRICARE Reserve Select is scheduled to be implemented in October 2007.

estimates, the cost for this new health care benefit will increase dramatically in fiscal year 2008 to about \$381 million, and will continue to increase to about \$874 million, about \$1,100 per capita, by fiscal year 2013, as shown in figure 5. DOD estimates that it may be a few years before a significant number of reservists enroll in the program. However, if enrollment numbers prove higher than DOD estimated, the cost for TRICARE Reserve Select may be higher than currently projected. In addition, DOD predicts that the cost for health care will consume more than 12 percent of its total budget by fiscal year 2015, compared to 7.5 percent in fiscal year 2005. As a result, service officials have commented that the only way to control personnel costs may be to reduce the number of personnel.

Figure 5: DOD's Estimated Cost to the Government for TRICARE Reserve Select, Fiscal Years 2005-2013



Source: DOD.

Moreover, total compensation costs for reservists will likely increase after contingency operations subside. According to DOD officials, after contingency operations end, the number of drills executed is expected to increase. Since fiscal year 2001, the number of executed drills and training decreased for part-time reservists. This decrease is, in part, due to the increased number of reservists called to active duty, which has left fewer reservists and units available to do their required drills. Although this may

not have an impact on the per capita costs of reserve compensation, it would drive up overall costs to compensate more part-time reservists.

DOD Does Not Know the Extent to Which Its Mix of Compensation Is Meeting Its Human Capital Goals

DOD does not know the extent to which its mix of cash, noncash, and deferred compensation is meeting its human capital goals of recruiting and retaining personnel. DOD's and Congress' piecemeal approach to reserve compensation has created a mix of compensation that has shifted toward more deferred compensation, even though this may not be an efficient use of resources. In addition, DOD is unable to gauge the efficiency and effectiveness of the mix of reserve compensation and its compensation tools because it lacks a compensation strategy and performance measures to assess its mix of compensation.

Mix of Reserve Compensation Has Shifted to Deferred Compensation, Which May Not Enable DOD to Meet Key Human Capital Goals of Recruiting and Retention

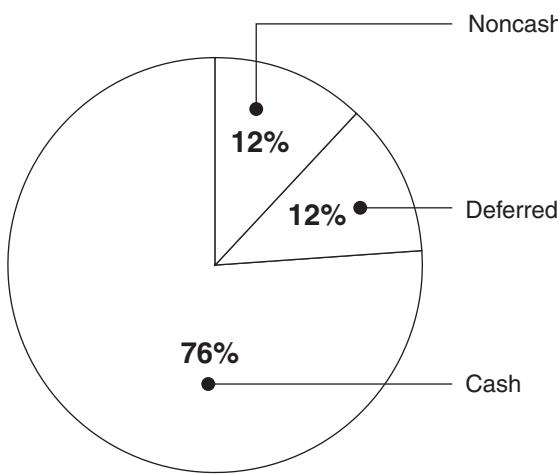
DOD and Congress have reacted to the current environment to address recruiting and retention problems by adding compensation. However, these efforts have been done in a piecemeal fashion that has shifted the mix of reserve compensation toward more deferred benefits, even though this may not be the most efficient allocation of compensation to enable DOD to meet its recruiting and retention human capital goals. Significant increases in the frequency and length of mobilizations to Iraq and Afghanistan have led to reservists being separated from their families for longer periods and potentially experiencing interruptions in their civilian careers. In fact, a recent memorandum from the Secretary of Defense indicates that reservists should expect to be mobilized on a regular cycle—with a goal of 1 year mobilized followed by 5 years nonmobilized. This change in utilization of reservists and the components' recent recruiting and retention challenges have corresponded with Congress and DOD adding various benefits and types of pay to address recruiting problems in some reserve components and to take care of servicemembers over their lifetime. For example, the cost of the reserve incentive program, which primarily provides discretionary cash bonuses for enlistment and reenlistment, increased more than 1,000 percent from fiscal year 2000 to fiscal year 2006. According to service officials, this increase was to address potential recruiting shortfalls.

The resulting complex accumulation of pays and benefits has shifted the mix of reserve compensation toward deferred compensation—that is, the promise of future compensation like retirement pay and health care. Figure 6 shows an increase in deferred compensation from 12 percent of total reserve compensation in fiscal year 2000 to 28 percent in fiscal year 2006. This shift to deferred compensation has also been observed for

active duty compensation costs. See appendix I for more information on the active component's compensation costs. Deferred compensation affects the current cost of compensation because funds must be set aside today to provide these benefits in the future, over the reservist's lifetime.

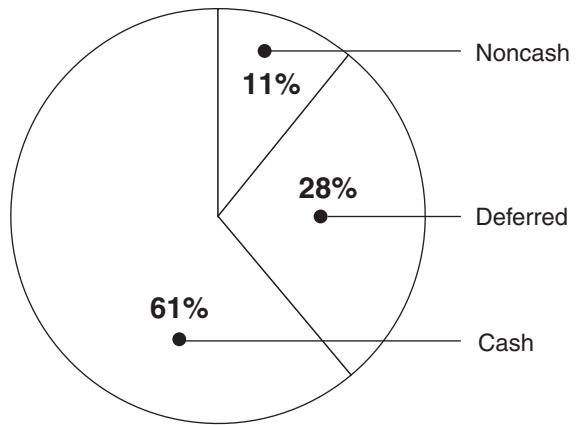
Figure 6: Allocation of Reserve Compensation to Cash, Noncash, and Deferred Categories in Fiscal Years 2000 and 2006

Fiscal year 2000



About \$13.9 billion or about \$10,100 per part-time reservist and about \$90,100 per full-time support personnel

Fiscal year 2006



About \$20.5 billion or about \$19,100 per part-time reservist and about \$115,200 per full-time support

Source: GAO.

While DOD and Congress have added pays and benefits over the past 6 years, it is questionable whether there was consideration of the appropriateness of the changes, including how the changes compared to compensation in the civilian sector, what the efficiency and return of these changes would be in terms of meeting the department's human capital goals of recruiting and retention, or whether the compensation changes were affordable and sustainable over the long term. DOD defines efficiency of its compensation system as paying no higher or lower than necessary to fulfill the basic objective of attracting, retaining, and motivating the kinds and numbers of servicemembers needed.³⁰ However,

³⁰Department of Defense, Office of the Secretary of Defense, *Military Compensation Background Papers: Compensation Elements and Related Manpower Cost Items, Their Purpose and Legislative Backgrounds*, 6th ed. (Washington, D.C.: April 2005).

this increase in deferred compensation is not necessarily the most efficient allocation, nor does it provide the best return on the compensation investment. In fact, DOD does not know the most efficient allocation of compensation needed to meet its recruiting and retention goals because it has not evaluated reserve compensation to determine the appropriate mix of compensation to attract and retain sufficient numbers of qualified personnel. Although the efficiency of noncash and deferred compensation is difficult to assess because the value servicemembers place on them is highly individualized, studies indicate cash compensation is not only preferred to noncash and deferred compensation, but it is also a more efficient recruiting and retention tool for active duty servicemembers. In our 2005 report on active duty compensation, we stated that it is generally accepted that some deferred benefits, such as retirement, are not valued as highly by servicemembers as current cash compensation.³¹ Cash pay today is a far more efficient tool than future cash or benefits for the recruiting and retention of active duty personnel. For example, a study assessing the military draw down in the early 1990s found that when active duty servicemembers were offered a choice of lump-sum cash payments or annuities, a vast majority selected the lump-sum payment, even though it had considerably less net present value.³² This preference for cash compensation has a profound impact on the efficiency of DOD's compensation system, especially considering that fewer than one in four part-time reservists will receive these costly deferred benefits.³³ More specifically, about 24 percent of those who join the guard and reserve will ultimately earn nondisability retirement pay and health care for life. Typically, deferred and noncash compensation is offered across the board, which limits the department's flexibility to offer incentives, target personnel, or turn on and off compensation as it is needed to recruit and retain. Moreover, these changes may not be sustainable over the long term. Some of the noncash and deferred compensation that have been added in response to the department's recruiting and retention problems

³¹ GAO, *Military Personnel: DOD Needs to Improve the Transparency and Reassess the Reasonableness, Appropriateness, Affordability, and Sustainability of Its Military Compensation System*, GAO-05-798 (Washington, D.C.: July 19, 2005).

³² John T. Warner and Saul Pleeter, "The Personal Discount Rate: Evidence from Military Downsizing Programs," *The American Economic Review* (March 2001).

³³ GAO, *Military Personnel: DOD Needs More Data Before It Can Determine if Costly Changes to the Reserve Retirement System Are Warranted*, GAO-04-1005 (Washington, D.C.: Sept. 15, 2004).

are inflexible benefits and long-term costs that the department will find difficult to stop providing, such as health care for reservists.

Concerns about the most efficient and effective allocation of compensation to meet recruiting and retention goals are increasingly important given the recent recruiting and retention challenges the services have faced. In November 2005, we reported that the reserve components were having recruiting and retention challenges, specifically filling certain occupation specialties such as military police.³⁴ The Congressional Research Service also reported that the reserve components missed recruiting goals by 12 to 20 percent in fiscal year 2005.³⁵ Although the Marine Corps Reserve and Air Force Reserve met their 2006 recruiting goals, the other reserve components missed their goals. In addition, officials expressed concern that the services will have difficulty meeting future recruiting goals. The Commission on the National Guard and Reserves reported that polling data of young people suggest that the future for recruitment remains problematic as the propensity of youth to join the military declined from 15 percent in 2005 to 10 percent in 2006.³⁶ In addition to a decline in propensity to join the military, according to DOD, fewer soldiers leaving active duty are transitioning to the reserves. Moreover, the quality of recruits is declining.³⁷ At a time when the nation faces an increasing fiscal imbalance, until DOD assesses what the appropriate compensation mix should be so that it uses its compensation resources in the most efficient manner possible, DOD may be unable to sustain these costs and effectively balance the department's needs for new

³⁴GAO, *Military Personnel: DOD Needs Action Plan to Address Enlisted Personnel Recruitment and Retention Challenges*, GAO-06-134 (Washington, D.C.: Nov. 17, 2005); *Military Personnel: Preliminary Observations on Recruiting and Retention Issues within the U.S. Armed Forces*, GAO-05-419T (Washington, D.C.: Mar. 16, 2005).

³⁵CRS, *Recruiting and Retention: An Overview for FY2005 and FY2006 Results for Active and Reserve Component Enlisted Personnel* (Washington, D.C.: Jan. 26, 2007).

³⁶Commission on the National Guard and Reserves, *Strengthening America's Defense in the New Security Environment* (Washington, D.C.: March 1, 2007).

³⁷DOD measures enlisted recruits quality based on two criteria—graduation from high school and score on the Armed Forces Qualification Test (AFQT). Since fiscal year 1993, DOD's goals for recruit quality have been that at least 90 percent of new recruits must be high school graduates and at least 60 percent must score above average on the AFQT. CRS reported that three of the six reserve components—Army National Guard, Army Reserve, and Navy Reserve—each missed one of their quality goals in 2006. An increase in waivers for past offenses also raises concerns about the quality of new recruits.

equipment and personnel while recruiting and retaining the future reserve force.

DOD Does Not Have an Established Compensation Strategy and Performance Measures to Gauge the Efficiency of Reserve Compensation

DOD is unable to gauge the efficiency of the mix of reserve compensation and its compensation tools because it has not established a compensation strategy or performance measures. We have previously found that programs, such as compensation systems, need performance measures and goals to guide decision makers and program policy.³⁸ Moreover, DOD's Personnel and Readiness strategic plan states the importance of DOD identifying requirements and tailoring compensation and other programs to achieve objectives and continuously reviewing personnel management.³⁹ In addition, we have also reported that it is necessary for an agency to monitor and evaluate its progress toward its human capital goals and the contribution that human capital outcomes have made toward achieving program results.⁴⁰

The lack of a compensation strategy to guide compensation policy is a long-standing problem faced by DOD. We identified the lack of explicit compensation principles in 1979 and again in 2005 in our reports on active duty compensation.⁴¹ Our past reports pointed out that DOD lacks explicit compensation principles, which creates challenges in making major changes to compensation. The Military Compensation Background Papers describe six principles that the compensation system is designed to achieve; those principles are: managing manpower, compatibility with the level of technology servicemembers employ, equity, effectiveness in war and peace, flexibility, and motivation. These principles, however, do not provide a clear strategy to guide military compensation policy, as stated in this excerpt:

³⁸GAO, *A Model of Strategic Human Capital Management*, GAO-02-373SP (Washington, D.C.: Mar. 15, 2002).

³⁹Under Secretary of Defense for Personnel and Readiness (OUSD—P&R), *Strategic Plan*, FY2006-2011.

⁴⁰GAO, *Human Capital: Key Principles for Effective Strategic Workforce Planning*, GAO-04-39 (Washington, D.C.: Dec. 11, 2003).

⁴¹GAO, *Military Personnel: DOD Needs to Improve the Transparency and Reassess the Reasonableness, Appropriateness, Affordability, and Sustainability of Its Military Compensation System*, GAO-05-798 (Washington, D.C.: July 19, 2005); *The Congress Should Act to Establish Military Compensation Principles*, GAO/FPCD-79-11 (Washington, D.C.: May 9, 1979).

“the relationships between the individual components of compensation and their systemic interrelationships as a coherent structure remain largely implicit rather than explicit. Virtually every aspect of military activity has explicit doctrines, principles, and practices embodied in field manuals, technical manuals, and various joint publications. Military compensation is noteworthy in its lack of such an explicit intellectual foundation.”⁴²

Moreover, DOD does not have performance measures to gauge the efficiency of its compensation system or the various compensation tools. Performance measures are used to evaluate how closely a program’s achievements are aligned with program objectives, and to assess whether a program is achieving its intended outcome. DOD and Congress have generally increased all types of compensation—adding more benefits while increasing bonuses—making it impossible to determine the relative value of each of these initiatives. Without these measures DOD does not know which of its compensation tools—cash, noncash, or deferred—works best for recruiting and retaining personnel, and it does not know the most effective, efficient mix of compensation.

Determining the return on investment for compensation and the impact of compensation on recruiting and retention is not an easy task and should be approached with caution. DOD and service officials often point to meeting end strength or recruiting and retention goals as evidence that compensation is appropriate or working. Although end strength is an important indicator, we do not believe it is sufficient alone. Meeting recruiting and retention goals does not indicate if the compensation system is efficient or yielding the best return on the department’s investment. There are numerous other factors, such as the economy, ongoing contingency operations, and DOD’s own recruiting and advertising program, that also influence the department’s ability to recruit and retain servicemembers.⁴³ As a result, DOD does not know if the additions to the compensation system—which are becoming increasingly costly, rising 47 percent from fiscal year 2000 to 2006—are appropriate to ensure the reserve components recruit and retain a high-quality workforce

⁴²Department of Defense, Office of the Secretary of Defense, *Military Compensation Background Papers: Compensation Elements and Related Manpower Cost Items, Their Purpose and Legislative Backgrounds*, 6th ed. (Washington, D.C.: April 2005).

⁴³DOD, *9th Quadrennial Review of Military Compensation vol 1* (May 17, 2002); Commission on the National Guard and Reserves, *Strengthening America’s Defenses in the New Security Environment* (Mar. 1, 2007); GAO, *Military Recruiting: DOD Needs to Establish Objectives and Measures to Better Evaluate Advertising’s Effectiveness*, [GAO-03-1005](#) (Washington, D.C.: Sept. 19, 2003).

in sufficient numbers and that the federal government has the best return on investment.

In DOD's response to this report, the department emphasized that it has not sought some of the increases in deferred and noncash compensation that Congress has recently given to servicemembers. Also, in our discussions with DOD officials, they told us that the department has focused on cash compensation in recent years and, in some cases, has opposed increases in deferred compensation. For example, the Secretary of Defense stated, in May 12, 2004, testimony before the Senate Appropriations Defense Subcommittee that, in recent years, Congress has often added entitlement-like changes, beyond DOD's recommendations, which concentrated on those who have already served. The Secretary of Defense's statement pointed out the fiscal effects of these decisions by stating that entitlements such as TRICARE for life are increasing substantially the permanent costs of running the department with only modest effect on recruiting and retaining personnel. Nevertheless, DOD has not formally assessed the appropriate mix of compensation and has not developed a written policy or document that specifies the department's overarching strategy for compensation. Until DOD establishes a strategy for determining the best mix of cash, noncash, and deferred compensation and develops performance measures to evaluate the efficiency of compensation tools, DOD and Congress will be unable to make informed decisions about which compensation tools will provide the best return on investment, be sustainable in the long-term, and be effective in recruiting and retaining the future reserve force.

DOD Does Not Have Transparency over Total Costs of Reserve Compensation

Decision makers in Congress and DOD do not have adequate transparency over total costs for providing reserve compensation—including the allocation of costs to cash, noncash, and deferred compensation—and the cost of mobilized reservists. Good business practices require adequate transparency over investments of resources, especially in times of fiscal constraint. However, today there is no single source where decision makers can go to see all the costs of reserve compensation. In addition, the cost of mobilized reservists is also not transparent.

Part of the lack of transparency is due to the fact that about a quarter of the costs of reserve compensation fall outside the military personnel appropriation for DOD. In fact, costs are located within three federal agencies—DOD, Department of Veterans Affairs, and Department of the Treasury—depending on the type of compensation and the duty status of the reservists—active reserve or mobilized, as shown in figure 7.

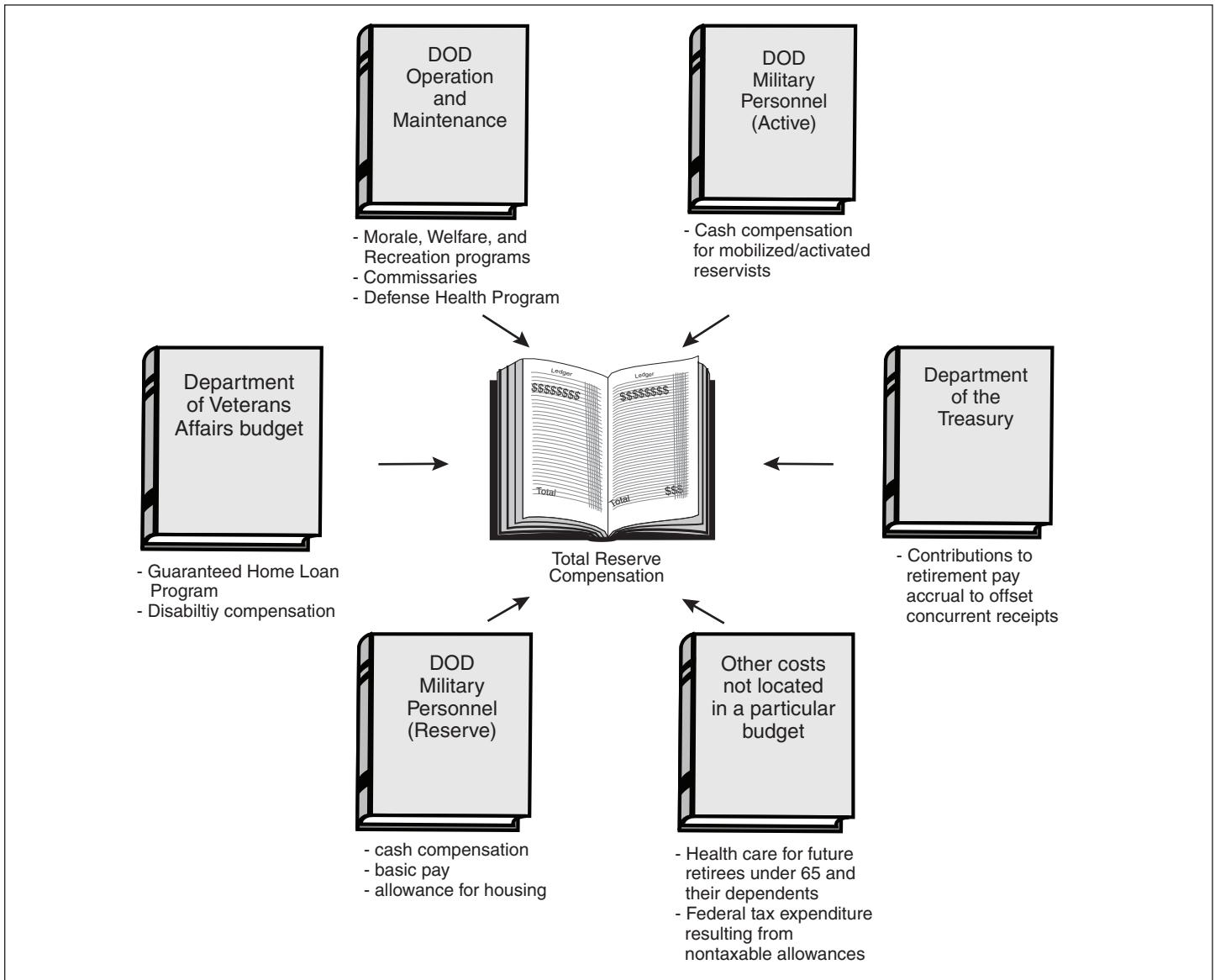
Furthermore, within DOD, compensation costs are found in four different budgets—the reserve components' military personnel, active components' military personnel, active components' operation and maintenance, and the Defense Health Program. Most of the cash costs—such as basic pay, allowances, and special pays and incentives—are located in either the reserve or active military personnel budgets, depending on whether the reservist is mobilized.⁴⁴ In addition, the reserve military personnel budgets combine some cash costs. For example, pays and allowances include such costs as retired pay accrual, basic allowance for subsistence, basic allowance for housing, and special and incentive pay as authorized. Furthermore, some noncash costs are located in the active operation and maintenance budget and active and reserve military personnel budgets.⁴⁵ Some of these noncash costs, such as those for commissary and morale, welfare, and recreation facility use, are not broken out by active and reserve costs because use of these facilities is open to both components. Moreover, deferred costs for health care for the Medicare-eligible retirees and their dependents are found in the Defense Health Program budget, while some of the costs for concurrent receipt of disability retirement from DOD and Veterans Affairs are found in the Treasury budget.⁴⁶

⁴⁴The military personnel budgets include such things as basic pay, allowances for housing and subsistence, special and incentive pays, other allowances, and retired pay accrual. The pay and benefits for mobilized reservists are located in the active military personnel budget.

⁴⁵The operation and maintenance budget includes costs for morale, welfare, and recreation programs and commissaries. The Veterans Affairs budget includes costs for the Home Loan Guaranty program and disability compensation. The military personnel budgets include costs for noncash items such as death gratuities and clothing and travel allowances.

⁴⁶The Health Affairs budget includes costs for all health care benefits except for health care for retirees younger than age 65. The Treasury budget includes contributions to retirement pay accrual to offset concurrent receipts.

Figure 7: Components of Total Reserve Compensation Costs



Source: GAO and Art Explosion.

Furthermore, we had to calculate some costs for reserve compensation because they were not captured in any budget documents. To do this, DOD provided, at our request, the accrual costs for future retirees and their dependents. Similarly, we estimated the tax expenditure for the

federal government from the nontaxable compensation provided to servicemembers.⁴⁷ We estimated that the cost for tax expenditures for full-time reservists alone was \$436 million in fiscal year 2006. In addition, the Department of Veterans Affairs does not calculate the accrual cost for veterans' benefits for reservists and we did not attempt to calculate these costs either because reservists are likely to be eligible for the majority of these benefits based upon active duty service. In appendix I, we present the accrual costs for active duty veterans' benefits that we calculated using data from the 1999 President's Budget. Comparable information for the reserve components was not available. As a result, these costs are unknown. This lack of information makes it difficult for decision makers to see the full costs of all the compensation pays and benefits provided to reservists.

Transparency over compensation costs is further limited when reservists are mobilized because mobilized reservists are paid from active duty budgets. Moreover, compensation costs for mobilized reservists are difficult to determine within the active components' budgets, in part, because they have been paid out of the supplemental funding the active components receive for the global war on terrorism. The absence of information about the compensation costs of mobilized reservists further dilutes decision makers' ability to see the full picture of the costs of reserve compensation to the federal government. In addition, as mobilizations are expected to become a regular part of reservists' careers, these costs will become a part of doing business for the reserves, which increases the importance of being able to identify them.⁴⁸

DOD is taking measures to address some of these problems. For example, DOD required the services to include detailed cost estimates of reserves called to active duty in the fiscal year 2007 and 2008 supplemental submissions. In addition, DOD is working on a system to consolidate

⁴⁷Retired reservists who are age 60 or older are eligible for the same health care benefits as their active duty counterparts. Nontaxable compensation refers to the Basic Allowance for Subsistence and Basic Allowance for Housing that full-time reservists are eligible to receive.

⁴⁸Secretary of Defense, Memorandum for Secretaries of the Military Departments, Chairman of the Joint Chiefs of Staff, Under Secretaries of Defense, "Utilization of the Total Force" (Jan. 19, 2007). This memorandum states that the planning objective for involuntary mobilization for the Guard and reserves will remain a 1-year mobilized to 5-year demobilized ratio. However, today's global demands will require a number of selected National Guard and reserve units to be remobilized sooner than this standard.

personnel and pay systems for all active and reserve components, known as the Defense Integrated Military Human Resources System. This consolidation may improve transparency of DOD costs by integrating all human resource information for active, guard, and reserve personnel of all the services. However, as we reported in 2005 and 2006, this task is proving to be difficult to complete.⁴⁹ We found that the services have unique requirements that are limiting the flexibility to consolidate to a single solution. Furthermore, service officials told us that this system is unlikely to improve transparency over budgeted costs.

In 2005, we recommended that DOD compile the total costs to provide military compensation and communicate these costs to decision makers within the administration and Congress. Despite our recommendation, DOD has not compiled in one place, that is readily accessible, the total costs for active or reserve personnel compensation, including mobilized reservists, and the allocation of these costs among cash, noncash, and deferred compensation. Such a compilation could enable decision makers to accurately assess these costs and to manage the total force as well as efficiently and effectively make fact-based human capital adjustments.

Some steps have been taken to improve transparency and recognition appears to be growing about the effect of rising compensation costs. For example, the Office of Management and Budget appears to have recognized the need for greater transparency over compensation costs. For the first time, in its *Analytical Perspectives* for fiscal year 2008, the Office of Management and Budget described the total cost of DOD active duty compensation and its allocation to cash, noncash, and deferred compensation.⁵⁰ The *Analytical Perspectives* document also describes significant growth in per capita compensation in recent years. However, this analysis is submitted separately, and is part of a more than 400-page document that accompanies the budget but is not part of the military budget submission. In addition, in its February 2007 report on federal budget options, the Congressional Budget Office discussed the option of

⁴⁹GAO, *Defense Business Transformation: A Comprehensive Plan, Integrated Efforts, and Sustained Leadership are Needed to Assure Success*, GAO-07-229T (Washington, D.C.: Nov. 16, 2006); DOD Systems Modernization: Management of Integrated Military Human Capital Program Needs Additional Improvements, GAO-05-189 (Washington, D.C.: Feb. 11, 2005).

⁵⁰The Office of Management and Budget, *Analytical Perspectives: Budget of the United States Government, Fiscal Year 2008* (Washington, D.C.: 2007).

consolidating military personnel costs in a single appropriation.⁵¹ The report stated that the consolidation of compensation costs would not only provide more complete information about how much money is being allocated in support of military personnel, but it would also give DOD managers a greater incentive to use resources wisely. Until total costs for reserve compensation are compiled in a transparent and easily accessible manner, decision makers will be unable to determine the affordability and efficiency of the reserve compensation system. Knowing these costs is especially important given the growing fiscal challenges the country faces.

Conclusions

DOD and Congress have reacted to the dramatic shift from a strategic to an operational reserve by adding compensation without adequate consideration of how the additions compare with civilian sector compensation; whether they are appropriate, affordable, and sustainable over the long term; or their return on investment in terms of recruiting and retention. Looking forward, DOD officials are concerned about their ability to manage personnel costs, because so much of the costs are in entitlements—items that managers have little to no control over, such as retirement pay and health care. As a result, it is highly questionable whether the increasingly costly compensation system is affordable, sustainable, and fiscally sound over the long term. This challenge is especially acute given the nation's increasingly constrained fiscal environment and DOD's need to balance its personnel costs with its desire for new equipment and infrastructure. Without assessing what the appropriate compensation mix should be, DOD will be unable to ensure that it uses its compensation resources most efficiently. Moreover, until DOD establishes a compensation strategy on which to base changes in compensation and performance measures to gauge the efficiency of changes to the compensation system, DOD will be unable to use its compensation resources in the most effective and efficient manner, which ultimately could negatively affect DOD's ability to recruit and retain a highly qualified force in sufficient numbers.

In addition to the lack of an underpinning compensation strategy, the lack of transparency over compensation costs makes it difficult to make fact-based decisions about the efficiency and effectiveness of adjustments to the compensation system, and in broader terms adjustments to the total force. A complete picture of total compensation cost for reserve

⁵¹Congressional Budget Office, *Budget Options* (Washington, D.C.: February 2007).

personnel includes the costs for those reservists who are mobilized as well as the costs for cash, noncash, and deferred compensation. Without an inclusive display of all the reserve compensation costs, DOD will not be able to determine the magnitude of funding and potential for current investments and operations to turn into long-term financial commitments, thus prompting real questions about the affordability and sustainability of the rate of growth in defense spending. Understanding the total cost of military compensation can provide DOD and Congress with important information as they make assessments on compensation matters, and it also allows decision makers to make informed trade-offs among competing demands for such things as force structure, equipment acquisition, and infrastructure decisions. Moreover, as DOD embraces the change in the use of reservists to an operational force mobilized more regularly, the traditional use of reservists as “weekend warriors” becomes less realistic. In today’s environment reservists will likely be activated regularly during their career—and those associated compensation costs are likely significant. Taken together, the lack of a compensation strategy, performance measures, and transparency limits decision makers’ ability to make fact-based decisions about the appropriateness of the mix and level of compensation provided to reservists.

Recommendations for Executive Action

To improve the appropriateness of the reserve compensation system and to gain transparency over total reserve compensation costs, we recommend that the Secretary of Defense take the following actions:

- Establish a clear compensation strategy that includes performance measures to evaluate the efficiency of compensation in meeting recruiting and retention goals, and use the performance measures to monitor the performance of compensation and assess what mix of compensation will be most efficient in the future.
- Compile the total costs to provide reserve compensation for part-time, full-time, and mobilized reservists and communicate these costs as well as the allocation of these costs among cash, noncash, and deferred compensation to decision makers within the administration and Congress—perhaps as an annual exhibit as part of the President’s budget submission to Congress.

Matter for Congressional Consideration

As future changes are considered to pay and benefits for National Guard and reserve personnel as well as veterans, Congress should consider the long-term affordability and sustainability of these changes, including the long-term implications for the deficit and military readiness.

Agency Comments and Our Evaluation

We provided the Department of Veterans Affairs and DOD a draft of this report for review and comment. The Department of Veterans Affairs agreed with the statements in the report as they pertain to the department and had no formal comments on the report. DOD's comments are reprinted in this report as appendix IV. DOD partially concurred with our recommendations, but had several technical comments, which we have incorporated where appropriate.

DOD partially concurred with our first recommendation to establish a clear compensation strategy and use performance measures to monitor and assess the mix of compensation. DOD noted that the department has consistently communicated its approach to Congress in Congressional testimony and that DOD has sponsored efforts, such as the Defense Advisory Committee on Military Compensation, to assess its overarching compensation strategy. DOD also pointed out that it has generally not sought increases in deferred and noncash compensation, and stated during congressional testimony the department's preference for cash compensation. We believe that DOD's argument that Congress has mandated changes to compensation that it did not seek further illustrates why the department needs to develop an explicit compensation strategy and performance measures. As we point out in this report, a compensation strategy could be used to underpin the department's compensation decisions and performance measures to track their effectiveness. Furthermore, the department would be in a better position to make business case arguments for or against changes to its compensation system, and provide fact-based evidence regarding the efficiency of the allocation of cash, noncash, or deferred compensation.

DOD also partially concurred with our second recommendation to compile total costs to provide reserve compensation for both drilling and mobilized reservists and communicate those costs to decision makers within the administration and Congress. In its response to this report, DOD stated that this recommendation may be more appropriate for the Office of Management and Budget since the costs extended to multiple federal departments. We made a similar recommendation to the department in our July 2005 report on active duty compensation. Since our 2005 report, the Office of Management and Budget published a compilation of active

duty compensation costs and the allocation of cost to cash, noncash, and deferred compensation in its fiscal year 2008 *Analytical Perspectives*. In addition, the department noted that it has discussed with the Office of Management and Budget the possibility of expanding the information to include Guard and reserve compensation costs. Such actions represent steps in the right direction. However, placing the information in the 400-plus page *Analytical Perspectives* document that accompanies the budget may not be as effective as an annual budget exhibit included as part of the military budget request. While we believe OMB has taken a step in the right direction, we continue to believe that DOD is in the best position to exercise ownership over total compensation costs and, accordingly, should compile and present total compensation costs as part of its budget submission. As we stated in our report, lack of transparency over compensation costs is, in part, due to the fact that DOD lacks a single source to illustrate total compensation costs for drilling, full-time, and mobilized reservists. We continue to believe that compilation of costs in a single source is an important first step in gaining transparency over total reserve compensation costs. This type of compilation would provide decision makers with a resource to make fact-based decisions about future changes to compensation.

We are sending copies of this report to the appropriate congressional committees, the Secretary of Defense, and other interested parties. In addition, the report will be available at no charge on GAO's Web site at <http://www.gao.gov>. If you or your staff have any questions regarding this report, please contact me at (404)679-1900 or pendletonj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Other staff members who made key contributions to this report are listed in appendix V.



John H. Pendleton
Acting Director, Defense Capabilities and Management

List of Congressional Committees

The Honorable Carl Levin
Chairman
The Honorable John McCain
Ranking Member
Committee on Armed Services
United States Senate

The Honorable Daniel Inouye
Chairman
The Honorable Ted Stevens
Ranking Member
Subcommittee on Defense
Committee on Appropriations
United States Senate

The Honorable Ike Skelton
Chairman
The Honorable Duncan Hunter
Ranking Member
Committee on Armed Services
House of Representatives

The Honorable John P. Murtha
Chairman
The Honorable C.W. Bill Young
Ranking Member
Subcommittee on Defense
Committee on Appropriations
House of Representatives

Appendix I: Updated Active Duty Compensation Costs

We originally reported total active duty compensation costs to the federal government in July 2005.¹ This appendix updates the total compensation costs in that report. As shown in table 1, adjusted for inflation, the total cost for providing active duty compensation increased from about \$131.7 billion to \$173.2 billion (32 percent) from fiscal year 2000 to fiscal year 2006. Cash benefits accounted for 48 percent of total compensation costs, while noncash and deferred benefits accounted for 21 and 31 percent, respectively. In fiscal year 2006, it cost the federal government more than \$126,000, on average, to provide annual compensation to active duty servicemembers. Three things are important to remember about our estimate. First, it is an average of what it cost the government to compensate servicemembers, not what the servicemembers “receive in their paycheck.” Second, agencies other than Department of Defense (DOD), such as the Department of Veterans Affairs, Department of Education, and Department of Labor, provide compensation to servicemembers, so our estimate includes their appropriated costs. Third, the estimate does not include the cost of adding servicemembers, because it does not include costs for acquiring and training personnel.

¹GAO, *Military Personnel: DOD Needs to Improve the Transparency and Reassess the Reasonableness, Appropriateness, Affordability, and Sustainability of Its Military Compensation System*, GAO-05-798 (Washington, D.C.: July 19, 2005).

Appendix I: Updated Active Duty Compensation Costs

Table 3: Summary of Changes in Active Duty Compensation Costs for Fiscal Years 2000 and 2006

Fiscal year 2006 constant dollars	Fiscal year 2000	Fiscal year 2006	Percentage change	Percentage of total compensation (fiscal year 2006)
Components of compensation				
Cash (in billions)				
Basic pay	\$40.8	\$48.2	18	
Housing allowance	7.7	14.8	92	
Subsistence allowance	3.3	3.5	6	
Special and incentive pays	3.5	5.2	48	
Allowance	2.0	3.2	60	
Tax expenditure	6.6	8.5	30	
Total cash (in billions)	\$63.9	83.4	30	48
Total per capita cash	46,559	60,713	30	
Noncash benefits (in billions)				
Subsistence in kind	1.3	2.7	111	
Other ^a	15.6	17.4	19	
Education ^b	0.4	0.6	63	
Health care	9.9	13.6	38	
Family housing and barracks	2.4	2.3	(5)	
Total noncash (in billions)	29.6	36.6	24	21
Total per capita noncash	21,581	26,721	24	
Deferred benefits (in billions)				
Retired pay accrual	13.0	12.7	(2)	
Veterans Affairs - health care	8.9	10.5	18	
Veterans Affairs- compensation and pension	9.5	11.3	18	
Veterans Affairs - other	0.9	1.1	18	
Department of the Treasury	0.0	2.4		
Health care accrual	5.8	15.3	162	
Total deferred (in billions)	38.1	53.3	39	31
Total per capita deferred	27,831	38,806	39	
Total compensation (in billions)	\$131.7	\$173.2	32	
Total per capita	\$95,971	\$126,239	32	

Source: GAO analysis.

Note: The numbers may not total due to rounding. According to DOD, about 95,000 mobilized reservists were paid out of active duty cash compensation costs in fiscal year 2006. Our active duty per capita cost estimates do not take these mobilized reservists into account because our per capita costs are based on active duty end strength. The per capita costs to provide compensation would be lower if these reservists are taken into consideration.

^aIncludes separation pay, partial dislocation allowance, transportation subsidy, permanent change of station, DOD dependents' education, adoption expenses, savings deposit program, death gratuities, survivor benefits, Servicemember Group Life Insurance hazard payments, Veterans Affairs home loan guaranty program, other personnel support, special support, Morale Welfare and Recreation, commissaries, Social Security tax, unemployment benefits, special compensation, impact aid, and veterans employment and training.

^bIncludes education, off-duty voluntary education, and servicemember GI bill and certification.

To calculate the cost to the federal government of compensating active duty servicemembers, we interviewed officials from DOD, Department of Veterans Affairs, Department of Labor, Department of Education, Office of Management and Budget, and the Congressional Budget Office. We analyzed and compiled data for fiscal years 2000-2006 from the Army, Air Force, Marine Corps, and Navy's military personnel and operations and maintenance budget justification books. We also reviewed and compiled data from the Department of Veterans Affairs benefits and health care budget justification books. To estimate the total federal tax expenditure that results from the tax-exempt housing and subsistence allowances military personnel receive, we used the National Bureau of Economic Research's TAXSIM Model to simulate tax liabilities under different scenarios.² To estimate health care accrual costs, we used official DOD estimates of accrual health care costs for all retirees and their dependents. In addition, DOD's Office of Health Affairs provided us the estimated cost of health care for active duty servicemembers and their dependents for fiscal years 2004-2006. To calculate the costs of future veterans' benefits for current active duty servicemembers, including the costs for health care, compensation, pension, and other types of benefits, we used notional costs as a percentage of basic pay for accruing and actuarially funding Department of Veterans Affairs benefits in the DOD budget. Lastly, we used deflators to adjust the budget appropriations into current fiscal year 2006 dollars. For more detailed information on our methodology, see appendix II.

²National Bureau of Economic Research's TAXSIM Model simulates the U.S. federal income tax rules. See Daniel Feenberg and Elisabeth Coutts "An Introduction to the TAXSIM Model," *Journal of Policy Analysis and Management*, vol. 12, no. 1, 1993, pp. 189-194.

Appendix II: Scope and Methodology

To determine how Guard and reserve servicemembers have been compensated, we analyzed relevant regulations and legislation since 2000, identified changes in compensation policy, and compiled a list of pays and benefits for which reservists are currently eligible. We then used budgetary data to assign costs to the various pays and benefits of the reserve compensation system. This included compiling data for fiscal years 2000-2006 from the Army National Guard, Army Reserve, Air National Guard, Air Force Reserve, Marine Corps Reserve, and Navy Reserve's military personnel and operation and maintenance budget justification books. Within the operation and maintenance justification books, we reviewed the budgets of the defense health program; the defense commissary agency; the morale, welfare, and recreation activities (OP-34 exhibit); and DOD dependent education activity. We also reviewed data from the Department of Veterans Affairs benefits and health care budget justification books. In addition, we interviewed DOD officials in Washington, D.C., from the offices of (1) the Assistant Secretary of Defense for Reserve Affairs; (2) the Comptroller within the Office of Secretary of Defense; (3) each of the national guard and reserve components, excluding the Coast Guard; (4) the Actuary; (5) Health Affairs; and (6) the Office of Program Analysis and Evaluation. We also interviewed officials from the Department of Veterans Affairs in Washington, D.C., the Office of Management and Budget in Washington, D.C., and the Congressional Budget Office in Washington D.C.

All of the associated costs for the reserves could not be found in the budgetary exhibits. In some instances, we requested data from the appropriate federal agency. For example, the Office of Health Affairs provided (1) per capita TRICARE cost estimates for full-time administration and support personnel for fiscal years 2004 through 2006; (2) cost estimates for TRICARE Reserve Select (TRS) for fiscal year 2005 and fiscal year 2006; and (3) projected cost estimates for TRS for fiscal year 2008 to fiscal year 2013. To calculate the health care cost for full-time reservists for fiscal years 2000 through 2003, we relied on our previous health care cost estimates for active duty personnel.¹ The Office of the Actuary provided the costs for the retired health care accrual. Although the Department of Veterans Affairs provided assistance, we determined that the portion of reserve deferred or accrual cost associated with most

¹GAO, *Military Personnel: DOD Needs to Improve the Transparency and Reassess the Reasonableness, Appropriateness, Affordability, and Sustainability of Its Military Compensation System*, GAO-05-798 (Washington, D.C.: July 19, 2005).

veterans' programs could not be identified without creating an accrual model.

In other instances, we found it necessary to estimate the cost to the federal government. For example, we used the data from the Office of the Actuary's Valuation Report to calculate the Department of Treasury's contribution to disability compensation accrual. We also estimated total federal tax expenditures that resulted from tax-exempt housing and subsistence allowances received by military personnel in 2005 and 2006. To do this we estimated the taxes owed by an active duty servicemember for every combination of years of service, rank, and family size,² with and without the tax exemption for housing and subsistence. The number and pays of servicemembers were provided by DOD's Selected Military Compensation Tables. Only military income was used to calculate the taxes owed.³ We calculated taxes owed for each group using the National Bureau of Economic Research's TAXSIM model, which simulates tax liabilities under different scenarios.⁴ We calculated the tax expenditure as the difference between the taxes owed without the tax exemptions and with the tax exemptions. We determined the average tax expenditure for active duty servicemembers by computing an average based on the number of servicemembers in each category. We applied these results to the active duty compensation cost.

Next, to estimate the percentage difference in tax expenditure between active duty and full-time reservists, we computed the ratio of average tax expenditure in 2006 based on the distribution of years of service and ranks for full-time reservists and active duty servicemembers. When computing the taxes owed by reservists, we assumed that the family size of full-time reservists was the same as active duty servicemembers of identical rank and years of service. Data for reservists were taken from the Official

²The first dependent is assumed to be a spouse. Other dependents are assumed to be children.

³In most cases, including additional income, such as from a spouse, would increase the marginal tax rate and increase our estimate of the tax expenditure. However, an exception might be servicemembers eligible for the Earned Income Tax Credit, where more income could increase the credit, lower the marginal tax rate, and decrease the size of the tax expenditure.

⁴The National Bureau of Economic Research's TAXSIM Model simulates the U.S. federal tax income tax rules. See Daniel Feenber and Elizabeth Coutts, "An Introduction to the TAXSIM Model," *Journal of Policy Analysis and Management*, vol. 12, no. 1 (1993), pp. 189-194.

Guard and Reserve Manpower Strength and Statistics⁵. We applied these results to the compensation cost of full-time reservists.

Additionally, to estimate future health care costs for the current reserve population when they retire, we used official estimates of health care accrual costs for servicemembers older than 65 (Medicare eligible) and younger than 65 (non-Medicare eligible). DOD's Office of the Actuary provided the per capita normal costs for postretirement medical benefits, that is, the present value of the current year's attributed portion of future benefits for active personnel and their eligible dependents. The 2000-2002 per capita normal costs were provided by DOD's Office of the Actuary based on data from a report prepared by Milliman USA Consultants and Actuaries.⁶ Per capita normal costs for 2003 and 2004 were based on data from Milliman's spreadsheets.⁷ The 2005 and 2006 per capita normal costs come from the DOD Office of the Actuaries' valuations as of September 30, 2004, and September 30, 2005, respectively.

Finally, when calculating aggregate costs for the various types of compensation, we used military personnel deflators from the National Defense Budget Estimates for fiscal year 2007 published by the Office of the Under Secretary of Defense (Comptroller) to adjust the budget appropriations into current fiscal year 2006 dollars. To aid our analysis, we classified the types of compensation into three categories: cash, noncash, and deferred. In addition, we classified the reserve service population into two categories: full-time and part-time. Our analysis produced per capita costs for each category of the population. For the full-time per capita cost, we used the average strength identified in the military personnel budget justification books for the administration and support population as the denominator. The average strength, of Pay Groups A (reservists assigned to units), B (reservists designated as Individual Mobilization Augmentees), F (reservists completing initial entry training),

⁵ Office of the Assistant Secretary of Defense (Reserve Affairs), *Official Guard and Reserve Manpower Strengths and Statistics: FY 2006 Summary*.

⁶ Milliman USA Consultants and Actuaries, *Analysis of the U.S. Military's Projected Retiree Medical Liabilities as of September 30, 1999* (Vienna, VA); *Analysis of the U.S. Military's Projected Retiree Medical Liabilities as of September 30, 2000* (Vienna, VA); *Analysis of the U.S. Military's Projected Retiree Medical Liabilities as of September 30, 2001* (Vienna, VA).

⁷ Milliman USA Consultants and Actuaries, *Analysis of the U.S. Military's Projected Retiree Medical Liabilities as of September 30, 2000* (Vienna, VA; March 21, 2002); *Analysis of the U.S. Military's Projected Retiree Medical Liabilities as of September 30, 2001* (Vienna, VA; January 21, 2003).

and P, located in the military personnel budget justification books was adjusted by subtracting the average number of mobilized Select Reservists from each fiscal year to approximate the actual number of part-time drilling or “active” reservists. This “normalized” strength was used as the denominator for the part-time per capita cost. The office of the Assistant Secretary of Defense for Reserve Affairs provided assistance with querying the Contingency Tracking System managed by DOD’s Defense Manpower Data Center to identify the monthly number of reservists serving on active duty orders for named contingencies by reserve component. To assess the reliability of Contingency Tracking System data, we interviewed knowledgeable officials about the system and related internal controls, and we reviewed our prior work on the reliability of Contingency Tracking System data. To assess the reliability of the analysis (monthly deployment totals) produced by the Defense Manpower Data Center from the Contingency Tracking System, we reviewed the SAS program that generated the results. We determined the data we received were reliable for their intended purpose in this engagement.

To assess the extent to which DOD’s mix of cash, noncash, and deferred compensation helped DOD meet its human capital goals, we reviewed the requirements for establishing program objectives and outcome measures in federal government standards such as the Government Performance and Results Act of 1993 as well as in GAO guidance and strategies for human capital management. We reviewed applicable DOD directives, policy, and guidance and interviewed DOD officials from each of the reserve components, as well as representatives from the Office of the Secretary of Defense and Reserve Affairs in Washington, D.C., to assess whether DOD had established any strategies for compensation or outcome measures to determine the efficiency of its compensation tools. We interviewed DOD recruiting and retention officials to determine the extent to which compensation is used to attract and retain reserve personnel. These interviews were conducted with officials in the U.S. Army Accessions Command at Ft. Knox, Kentucky; U.S. Army Retention Command at Ft. McPherson, Georgia; and Air National Guard Office of Recruiting and Retention in Arlington, Virginia. We also reviewed reports done by DOD, the Congressional Research Service, the Commission on the National Guard and Reserves, the private sector, and others on recruiting and retention of reserve forces as well as commonly accepted economic theory.

To assess the extent to which DOD’s approach provided transparency over total costs to the federal government and determine whether DOD followed those directives, policy, and guidance, we reviewed how compensation costs are presented to decision makers by analyzing the

budget justification books and comparing them to applicable directives, policy, and guidance, such as the DOD Financial Management Regulation. We also interviewed knowledgeable officials at the National Guard Bureau (for the Army and Air National Guard), the Air Force Reserve Budget Division, the Army Reserves (Office of the Comptroller), Marine Corps Reserves, and Navy Reserve Budget offices in Washington, D.C. to learn more about transparency issues. We compared DOD directives and guidance to standards such as the Government Performance and Results Act and commonly accepted economic theory.

To calculate the cost to the federal government of compensating active duty servicemembers, we interviewed officials from DOD including the Office of the Secretary of Defense, Under Secretary for Personnel and Readiness' office of compensation, the Office of the Comptroller within the Office of the Secretary of Defense and the Services, the Office of the Actuary, and Health Affairs all in Arlington, Virginia. In addition, we interviewed officials from Department of Veterans Affairs, Department of Labor, Department of Education, Office of Management and Budget, and the Congressional Budget Office, all in Washington, D.C.

We examined and compiled data for fiscal years 2000-2006 from the Army, Air Force, Marine Corps, and Navy's military personnel and operations and maintenance budget justification books. Within the operations and maintenance justification books, we reviewed the Defense Health Program, the Defense Commissary Agency, the morale, welfare and recreation (OP-34 exhibit), and DOD dependent education activity budgets. We also reviewed and compiled data from the Department of Veterans Affairs benefits and health care budget justification books. We used deflators to adjust the budget appropriations into current fiscal year 2006 dollars.

To calculate the costs of future veterans' benefits for current active duty servicemembers, including the costs for health care, compensation, pension, and other types of benefits, we used notional costs as a percentage of basic pay of accruing and actuarially funding Veterans Affairs benefits in the DOD budget. The notional cost percentages we used were unofficial Office of Management and Budget estimates. These estimates were based on the most recent official percentages shown in table 12-2 of the 1999 President's Budget.

Lastly, all active duty compensation costs are not presented in budgets. As a result, we estimated the total federal tax expenditure and our methods are described as part of the reserve compensation costs on page 39. We requested DOD's Office of the Actuary provide health care accrual costs as

described in appendix I. We also requested that DOD's Office of Health Affairs provide health care cost estimates for active duty servicemembers and their dependents for fiscal years 2004-2006. We relied on our previously calculated active duty health care costs for fiscal years 2000 through 2003.⁸ We conducted our review from October 2006 through May 2007 in accordance with generally accepted government auditing standards.

⁸GAO, *Military Personnel: DOD Needs to Improve the Transparency and Reassess the Reasonableness, Appropriateness, Affordability, and Sustainability of Its Military Compensation System*, GAO-05-798 (Washington, D.C.: July 19, 2005).

Appendix III: Pay and Benefits of the Selected Reserve

Part-time Guard and reserve servicemembers					
Compensation	Inactive duty training (IDT)	Active duty for training (ADT)	Active duty (other than training) for 30 days or less	Active duty (other than training) for 31 days or more	Full-time support
<i>Cash compensation</i>					
<i>Pay and allowances</i>					
Basic pay	1/30 of the monthly basic pay rate for each IDT period	Amount is determined by the member's years of service and pay grade.	Amount is determined by the member's years of service and pay grade.	Amount is determined by the member's years of service and pay grade.	Amount is determined by the member's years of service and pay grade.
Basic Allowance for Housing	Not eligible	If ADT is 31 days or more, the servicemember is eligible. The amount is determined by the member's pay grade, location of permanent duty station, and dependent status.	Not eligible	Amount is determined by member's pay grade, location of permanent duty station, and dependent status.	Amount is determined by member's pay grade, location of permanent duty station, and dependent status.
Basic Allowance for Housing/Reserve Component	Not eligible	Eligible	Eligible	Not eligible	Not eligible
Basic Allowance Subsistence	Not eligible (Enlisted servicemembers may receive rations-in-kind)	Eligible, amount depends on if the servicemember is an officer or enlisted.	Eligible, amount depends on if the servicemember is an officer or enlisted.	Eligible, amount depends on if the servicemember is an officer or enlisted.	Eligible, amount depends on if the servicemember is an officer or enlisted.
Family Separation Allowance	Not eligible	Eligible, limited to members with dependents during permanent change of station when family cannot accompany member or temporary duty status (unaccompanied for 31 days or more).	Not eligible	Eligible, limited to members with dependents during permanent change of station when family cannot accompany member or temporary duty status (unaccompanied for 31 days or more).	Eligible, for members with dependents, if member meets statutory and regulatory requirements.

Appendix III: Pay and Benefits of the Selected Reserve

Part-time Guard and reserve servicemembers					
Compensation	Inactive duty training (IDT)	Active duty for training (ADT)	Active duty (other than training) for 30 days or less	Active duty (other than training) for 31 days or more	Full-time support
Tax Benefit	Not eligible	Housing and subsistence allowances are nontaxable benefits. In addition, all pay, allowances, and bonuses earned during a month while in a combat zone and qualified hazardous duty area for 1 day of the month are nontaxable. Officers' monthly tax exclusion of military pay earned is capped at the highest enlisted monthly basic pay plus \$225 for hazardous fire and Imminent Danger Pay (IDP).	Housing and subsistence allowances are nontaxable benefits. In addition, all pay, allowances, and bonuses earned during a month while in a combat zone and qualified hazardous duty area for 1 day of the month are nontaxable. Officers' monthly tax exclusion of military pay earned is capped at the highest enlisted monthly basic pay plus \$225 for hazardous fire and Imminent Danger Pay.	Housing and subsistence allowances are nontaxable benefits. In addition, all pay, allowances, and bonuses earned during a month while in a combat zone and qualified hazardous duty area for 1 day of the month are nontaxable. Officers' monthly tax exclusion of military pay earned is capped at the highest enlisted monthly basic pay plus \$225 for hazardous fire and Imminent Danger Pay.	Housing and subsistence allowances are nontaxable benefits. In addition, all pay, allowances, and bonuses earned during a month while in a combat zone and qualified hazardous duty area for 1 day of the month are nontaxable. Officers' monthly tax exclusion of military pay earned is capped at the highest enlisted monthly basic pay plus \$225 for hazardous fire and Imminent Danger Pay.
<i>Special and incentive pays^a</i>					
Hostile Fire/Imminent Danger Pay	Eligible; however, DOD policy states that a member shall not perform duty in a hostile fire/imminent danger area	Eligible, if the member meets the statutory and regulatory requirements of the pay.	Eligible, if the member meets the statutory and regulatory requirements of the pay.	Eligible, if the member meets the statutory and regulatory requirements of the pay.	Eligible, if the member meets the statutory and regulatory requirements of the pay.
Hazardous Duty Incentive Pay	Eligible, at 1/30 of the authorized rate for each IDT period, if the member meets the statutory and regulatory requirements of the pay, except for fire fighters.	Eligible, if the member meets the statutory and regulatory requirements of the pay.	Eligible, if the member meets the statutory and regulatory requirements of the pay.	Eligible, if the member meets the statutory and regulatory requirements of the pay.	Eligible, if the member meets the statutory and regulatory requirements of the pay.
Aviation Career Incentive Pay	Eligible, at 1/30 of the authorized rate for each IDT period, if the member meets the statutory and regulatory requirements of the pay.	Eligible, if the member meets the statutory and regulatory requirements of the pay.	Eligible, if the member meets the statutory and regulatory requirements of the pay.	Eligible, if the member meets the statutory and regulatory requirements of the pay.	Eligible, if the member meets the statutory and regulatory requirements of the pay.

Appendix III: Pay and Benefits of the Selected Reserve

Part-time Guard and reserve servicemembers					
Compensation	Inactive duty training (IDT)	Active duty for training (ADT)	Active duty (other than training) for 30 days or less	Active duty (other than training) for 31 days or more	Full-time support
Career Enlisted Flyers Incentive Pay	Eligible, at 1/30 of the authorized rate for each IDT period.	Eligible, if the member meets the statutory and regulatory requirements of the pay.	Eligible, if the member meets the statutory and regulatory requirements of the pay.	Eligible, if the member meets the statutory and regulatory requirements of the pay.	Eligible, if the member meets the statutory and regulatory requirements of the pay.
Foreign Language Proficiency Pay	Eligible, if the member meets the statutory and regulatory requirements of the pay.	Eligible, if the member meets the statutory and regulatory requirements of the pay.	Eligible, if the member meets the statutory and regulatory requirements of the pay.	Eligible, if the member meets the statutory and regulatory requirements of the pay.	Eligible, if the member meets the statutory and regulatory requirements of the pay.
Submarine Duty Incentive Pay	Eligible, at 1/30 of the authorized rate for each IDT period, if the member meets the statutory and regulatory requirements of the pay.	Eligible, if the member meets the statutory and regulatory requirements of the pay.	Eligible, if the member meets the statutory and regulatory requirements of the pay.	Eligible, if the member meets the statutory and regulatory requirements of the pay.	Eligible, if the member meets the statutory and regulatory requirements of the pay.
Diving Duty Special Pay	Eligible, at 1/30 of the authorized rate for each IDT period, if the member meets the statutory and regulatory requirements of the pay.	Eligible, if the member meets the statutory and regulatory requirements of the pay.	Eligible, if the member meets the statutory and regulatory requirements of the pay.	Eligible, if the member meets the statutory and regulatory requirements of the pay.	Eligible, if the member meets the statutory and regulatory requirements of the pay.
Special Duty Assignment Pay	Eligible, at 1/30 of the authorized rate for each IDT period, if the member meets the statutory and regulatory requirements of the pay.	Eligible. However, the Secretary of the military department may authorize payment only to those reservists on active duty in excess of 180 days.	Eligible. However, the Secretary of the military department may authorize payment only to those reservists on active duty in excess of 180 days.	Eligible. However, the Secretary of the military department may authorize payment only to those reservists on active duty in excess of 180 days.	Eligible, if the member meets the statutory and regulatory requirements of the pay.
Officers Holding Positions of Unusual Responsibility and of Critical Nature	Eligible for officers only, for each day of duty that meets the statutory and regulatory requirements of the pay.	Eligible for officers only, if the member meets the statutory and regulatory requirements of the pay.	Eligible for officers only, if the member meets the statutory and regulatory requirements of the pay.	Eligible for officers only, if the member meets the statutory and regulatory requirements of the pay.	Eligible for officers only, if the member meets the statutory and regulatory requirements of the pay.

Appendix III: Pay and Benefits of the Selected Reserve

Part-time Guard and reserve servicemembers					
Compensation	Inactive duty training (IDT)	Active duty for training (ADT)	Active duty (other than training) for 30 days or less	Active duty (other than training) for 31 days or more	Full-time support
Hardship Duty Pay (mission)	Not eligible	Eligible when assigned to a designated mission.	Eligible when assigned to a designated mission.	Eligible when assigned to a designated mission.	Eligible, if the member meets the statutory and regulatory requirements for the pay.
Hardship Duty Pay (location)	Not eligible	Eligible from the first day if assigned permanently to a designated location or if assigned temporarily to a designated location for more than 30 consecutive days, payable from first day.	Eligible from the first day if assigned permanently to a designated location or if assigned temporarily to a designated location for more than 30 consecutive days, payable from first day.	Eligible from the first day if assigned permanently to a designated location or if assigned temporarily to a designated location for more than 30 consecutive days, payable from first day.	Eligible if the member meets the statutory and regulatory requirements for the pay.
Special Pay for Members of Weapons of Mass Destruction Civil Support Teams	Eligible at 1/30 of the authorized rate for each duty day.	Eligible at 1/30 of the authorized rate for each duty day.	Eligible at 1/30 of the authorized rate for each duty day.	Eligible at 1/30 of the authorized rate for each duty day.	Eligible at 1/30 of the authorized rate for each duty day.
Medical and Dental Special Pay	Not eligible	Eligible, medical officers are authorized \$450/month and dental officers \$350/month.	Eligible, medical officers are authorized \$450/month and dental officers \$350/month.	Eligible	Eligible, if the member meets the statutory and regulatory requirements of the pay.
Other health care professions: optometrists; psychologists and non-physician health care providers; nurse anesthetists & veterinarians	Not eligible	Not eligible	Not eligible	Eligible	Eligible, if the member meets the statutory and regulatory requirements of the pay.
<i>Bonuses^b</i>					
Selected Reserve Officer Affiliation Bonus	Eligible for officers who agree to fill critical shortfalls.	Eligible for officers who agree to fill critical shortfalls.	Eligible for officers who agree to fill critical shortfalls.	Eligible for officers who agree to fill critical shortfalls.	Eligible for officers who agree to fill critical shortfalls; however, DOD policy prohibits.

Appendix III: Pay and Benefits of the Selected Reserve

Part-time Guard and reserve servicemembers					
Compensation	Inactive duty training (IDT)	Active duty for training (ADT)	Active duty (other than training) for 30 days or less	Active duty (other than training) for 31 days or more	Full-time support
Selected Reserve Enlistment Bonus	Limited to Selected Reserve who enlist to fill critical shortfalls.	Limited to Selected Reserve who enlist to fill critical shortfalls.	Limited to Selected Reserve who enlist to fill critical shortfalls.	Limited to Selected Reserve who enlist to fill critical shortfalls.	Limited to Selected Reserve who enlist to fill critical shortfalls; however, DOD policy prohibits..
Selected Reserve Reenlistment Bonus	Limited to Selected Reserve who reenlist to fill critical shortfalls.	Limited to Selected Reserve who reenlist to fill critical shortfalls.	Limited to Selected Reserve who reenlist to fill critical shortfalls.	Limited to Selected Reserve who reenlist to fill critical shortfalls.	Limited to Selected Reserve who reenlist to fill critical shortfalls; however, DOD policy prohibits..
\$30,000 Lump Sum Bonus	Not eligible	Not eligible	Not eligible	Not eligible	Option available to Active Guard and Reserves with 15 years of service who first became a member after August 1, 1986 and elect to accept the lump sum bonus and to remain under the Redux retirement plan.
Noncash compensation					
<i>Medical and dental care^c</i>					
Member Medical and Dental Benefits	Eligible for treatment of injury, illness or disease incurred or aggravated in line of duty.	Eligible, if 30 days or less, for treatment of injury, illness or disease incurred or aggravated in line of duty and if 31 days or more it is the same as active duty.	Eligible for treatment of injury, illness or disease incurred or aggravated in line of duty.	Eligible for treatment provided at a military treatment facility.	Eligible for treatment provided at a military treatment facility.
TRICARE Dental Program for Reserve Component members	Eligible	Eligible, if ADT is 30 days or less; however, if ADT is 31 days or more then dental care and treatment provided at a military treatment facility.	Eligible	Dental care and treatment provided at a military treatment facility.	Dental care and treatment provided at military treatment facility.

Appendix III: Pay and Benefits of the Selected Reserve

Part-time Guard and reserve servicemembers					
Compensation	Inactive duty training (IDT)	Active duty for training (ADT)	Active duty (other than training) for 30 days or less	Active duty (other than training) for 31 days or more	Full-time support
Dependent Medical Benefits	Not eligible	Eligible, if the member is ordered to active duty for training for 31 days or more.	Not eligible	Eligible, at military facilities if space is available or the servicemember may select from TRICARE Standard, Extra, Prime or Prime Remote.	Eligible, at military facilities if space is available or the servicemember may select from TRICARE Standard, Extra, Prime or Prime Remote.
Transitional Health Care: Member and Dependents	Not eligible	Eligible, for 180 days, if involuntarily separated from active duty.	Not eligible	Eligible, for 180 days, if involuntarily separated from active duty or if released from active duty while serving in a contingency operation for a period of more than 30 days.	Eligible, for 180 days, if involuntarily separated from active duty.
TRICARE Reserve Select Tier I: Member and Dependents ^d	Eligible, if member meets eligibility requirements and enrolls,			Not eligible	Not eligible
TRICARE Reserve Select Tier II: Member and Dependents	Eligible, if member meets eligibility requirements and enrolls.			Not eligible	Not eligible
TRICARE Reserve Select Tier III: Member and Dependents	Eligible, if member meets eligibility requirements and enrolls.			Not eligible	Not eligible
TRICARE Dental Program for Dependents	Eligible	Eligible	Eligible	Eligible	Eligible
<i>Installation-based benefits (availability limited by geographic location)</i>					
Commissary Privileges	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited
Post Exchange Privileges	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited
Morale, Welfare, Recreation Services	Eligible, however, may have limited availability for various services.	Eligible, however, may have limited availability for various services.	Eligible, however, may have limited availability for various services.	Eligible, however, may have limited availability for various services.	Eligible, however, may have limited availability for various services.

Appendix III: Pay and Benefits of the Selected Reserve

Part-time Guard and reserve servicemembers					
Compensation	Inactive duty training (IDT)	Active duty for training (ADT)	Active duty (other than training) for 30 days or less	Active duty (other than training) for 31 days or more	Full-time support
Family Support Centers	Eligible for some services but not all.	Eligible	Eligible	Eligible	Eligible
Child Care Centers	Eligible, however, may have limited availability.	Eligible, but availability of space may be limited.	Eligible, but availability of space may be limited.	Eligible, but availability of space may be limited.	Eligible, but availability of space may be limited.
Space Required Travel	Eligible to travel between the member's home and place of training.	Eligible	Eligible	Eligible	Eligible
Space Available Travel	Eligible for the member only within the continental United States of America.	Eligible for the member and dependents to all locations.	Eligible for the member and dependents to all locations.	Eligible for the member and dependents to all locations.	Eligible for the member and dependents to all locations.
Legal Assistance	Usually limited to services that are associated with military requirements.	Subject to the availability of legal staff resources.	Subject to the availability of legal staff resources.	Subject to the availability of legal staff resources.	Subject to the availability of legal staff resources.
<i>Insurance^a</i>					
Servicemember Group Life Insurance	Selected Reserve members are automatically enrolled and may decline coverage.	Selected Reserve members are automatically enrolled and may decline coverage.	Coverage continues or eligible to enroll.	Coverage continues or eligible to enroll.	Coverage continues or eligible to enroll.
Servicemember Group Life Insurance Family Coverage	Eligible, if the member is enrolled in Servicemember Group Life Insurance.	Eligible, if the member is enrolled in Servicemember Group Life Insurance.	Eligible, if the member is enrolled in Servicemember Group Life Insurance.	Eligible, if the member is enrolled in Servicemember Group Life Insurance.	Eligible, if the member is enrolled in Servicemember Group Life Insurance.
Traumatic Injury Protection Program	Selected Reservists are automatically enrolled if the reservist has Servicemember Group Life Insurance coverage.	Selected Reservists are automatically enrolled if the reservist has Servicemember Group Life Insurance coverage.	Selected Reservists are automatically enrolled if the reservist has Servicemember Group Life Insurance coverage.	Selected Reservists are automatically enrolled if the reservist has Servicemember Group Life Insurance coverage.	Automatically enrolled if the reservist has Servicemember Group Life Insurance coverage.
<i>Leave</i>					
Accumulation of Leave	Not eligible	Eligible, if ADT is 31 days or more.	Not eligible	Eligible	Eligible

Appendix III: Pay and Benefits of the Selected Reserve

Part-time Guard and reserve servicemembers					
Compensation	Inactive duty training (IDT)	Active duty for training (ADT)	Active duty (other than training) for 30 days or less	Active duty (other than training) for 31 days or more	Full-time support
Payment for Unused Leave	Not applicable.	Eligible, if ADT is 31 days or more. Up to 60 days in career. If on ADT for more than 30 days but less than 365 days, may sell unused leave in excess of the 60-day career limit.	Not eligible	Eligible, up to 60 days in career, but if on active duty for more than 30 days but less than 365 days, may sell unused leave in excess of the 60-day career limit.	Eligible, up to 60 days in career.
<i>Education</i>					
Montgomery GI Bill – Selected Reserve ¹	Requires a 6-year Selected Reserve service agreement.	Requires a 6-year Selected Reserve service agreement.	Requires a 6-year Selected Reserve service agreement.	Requires a 6-year Selected Reserve service agreement.	Requires a 6-year Selected Reserve service agreement.
Montgomery GI Bill Kicker	Enlisted must be or have been Montgomery GI Bill-Selected Reserve eligible and serve in a critically undermanned skill. Member must agree to a 6-year service obligation.	Enlisted must be or have been Montgomery GI Bill-Selected Reserve eligible and serve in a critically undermanned skill. Member must agree to a 6-year service obligation.	Enlisted must be or have been Montgomery GI Bill-Selected Reserve eligible and serve in a critically undermanned skill. Member must agree to a 6-year service obligation.	Enlisted must be or have been Montgomery GI Bill-Selected Reserve eligible and serve in a critically undermanned skill. Member must agree to a 6-year service obligation.	Enlisted must be or have been Montgomery GI Bill-Selected Reserve eligible and serve in a critically undermanned skill. Member must agree to a 6-year service obligation.
Reserve Officers Training Corps Scholarship Program	Scholarship program for Reserve Officers Training Corps participants.	Scholarship program for Reserve Officers Training Corps participants.	Scholarship program for Reserve Officers Training Corps participants.	Scholarship program for Reserve Officers Training Corps participants.	Not eligible.
Armed Forces Health Professions Stipend Program	Restricted to officers in designated health professions with obligatory periods of military training.	Restricted to officers in designated health professions with obligatory periods of military training.	Restricted to officers in designated health professions with obligatory periods of military training.	Restricted to officers in designated health professions with obligatory periods of military training.	Restricted to officers in designated health professions with obligatory periods of military training.
The Loan Repayment Program	Enlistment incentive	Enlistment incentive.	Enlistment incentive	Enlistment incentive.	Enlistment incentive
Tuition Assistance	Available to Selected Reservist members of the Army National Guard and Army Reserve.	Eligible, but an officer must agree to serve on active duty or full-time National Guard duty, unless waived by the Secretary concerned.	Eligible , but an officer must agree to serve on active duty or full-time National Guard duty, unless waived by the Secretary concerned.	Eligible , but an officer must agree to serve on active duty or full-time National Guard duty, unless waived by the Secretary concerned.	Eligible , but an officer must agree to serve on active duty or full-time National Guard duty, unless waived by the Secretary concerned.

Appendix III: Pay and Benefits of the Selected Reserve

Part-time Guard and reserve servicemembers					
Compensation	Inactive duty training (IDT)	Active duty for training (ADT)	Active duty (other than training) for 30 days or less	Active duty (other than training) for 31 days or more	Full-time support
Reserve Educational Assistance Program	Eligible upon completion of 90 consecutive days of active service in support of a contingency operation.	Eligible upon completion of 90 consecutive days of active service in support of a contingency operation.	Eligible upon completion of 90 consecutive days of active service in support of a contingency operation.	Eligible upon completion of 90 consecutive days of active service in support of a contingency operation.	Eligible upon completion of 90 consecutive days of active service in support of a contingency operation.
<i>Other</i>					
Clothing Allowance	Initial allowance paid to enlisted who are not issued clothing and officers at the beginning of their service.	Initial allowance paid to some enlisted and officers at the beginning of their service.	Initial allowance paid to enlisted some and officers at the beginning of their service.	Some enlisted, and officers called to active duty for more than 90 days may receive an extra clothing allowance.	Eligible
Transportation Incentive Program	Not eligible	Not eligible	Eligible	Eligible	Eligible
Permanent Change of Station Travel	Not eligible	Not eligible	Not eligible	Eligible if orders are for 20 weeks or more.	Eligible
Veterans Affairs-Home Loan ^g	Eligible, if completed 6 years of honorable reserve service.	Eligible, if completed 6 years of honorable reserve service.	Eligible, if completed 6 years of honorable reserve service.	Eligible, if completed 6 years of honorable reserve service.	Eligible
<i>Deferred compensation</i>					
Reserve retirement	Must earn 50 participation points per year for a minimum of 20 years. Eligible to receive pay and health care at age 60.	Must earn 50 participation points per year for a minimum of 20 years. Eligible to receive pay and health care at age 60.	Must earn 50 participation points per year for a minimum of 20 years. Eligible to receive pay and health care at age 60.	Must earn 50 participation points per year for a minimum of 20 years. Eligible to receive pay and health care at age 60.	Must have a minimum of 20 qualifying years to be eligible for retirement pay and benefits.
Retirement or Separation for Disability ^h	Eligible, if the disability was incurred or aggravated in the line of duty while: performing inactive duty training (IDT), traveling directly to or from the IDT site, remaining overnight immediately before or between successive IDT periods.	Eligible, if the disability was incurred or aggravated in the line of duty.	Eligible, if the disability was incurred or aggravated in the line of duty.	Eligible, if the disability was incurred or aggravated in the line of duty.	Eligible, if the disability was incurred or aggravated in the line of duty.

Appendix III: Pay and Benefits of the Selected Reserve

Part-time Guard and reserve servicemembers					
Compensation	Inactive duty training (IDT)	Active duty for training (ADT)	Active duty (other than training) for 30 days or less	Active duty (other than training) for 31 days or more	Full-time support
Veterans Affairs-Health care	Generally not eligible unless member qualifies based on service in active military or mobilization for a contingency operation.	Generally not eligible unless member qualifies based on service in active military or mobilization for a contingency operation.	Generally not eligible unless member qualifies based on service in active military or mobilization for a contingency operation.	Generally not eligible unless member qualifies based on service in active military or mobilization for a contingency operation.	A member qualifies based on active duty status.

Source: GAO analysis.

Note: Current through fiscal year 2006.

^aSpecial and incentive pays are intended to compensate members for more hazardous conditions than usually experienced in peacetime and provide incentives for certain career fields that would otherwise experience manpower shortfalls.

^bBonuses are intended to provide services with a flexible tool for targeting particular skills and address critical manpower shortfalls.

^cThere are a variety of programs offering varying levels of coverage depending on duty status and enrollment.

^dThe John Warner National Defense Authorization Act for Fiscal Year 2007 authorized the enhancement of TRICARE Reserve Select by making all Selected Reserve members and dependents eligible for the program at 28 percent of the premium. The change to the program is scheduled to take effect by October 2007.

^eThe insurance programs listed are supervised by the Department of Veterans Affairs. Enrollment in the programs requires the payment of a premium. The insurance may be bought in increments of \$50,000 up to a maximum of \$400,000. Children are insured at \$10,000 at no additional cost. Up to \$100,000 coverage can be purchased for a spouse. Traumatic injury insurance provides immediate financial assistance to traumatically injured servicemembers so their families can travel to be with them during an often extensive recovery and rehabilitation process. Payments range from \$25,000 to \$100,000 depending on the type and severity of injury.

^fUnlike Montgomery GI Bill-Active Duty, for reservists meeting the eligibility requirement, the benefit is automatic and the members are not required to make a payment. The Montgomery GI Bill-Reserve Component benefit amount is smaller than the Montgomery GI Bill –Active Duty benefit.

^gThe majority of reservists have prior service in the active component. Since fees for active duty applications are lower than reserve applications, reservists with active duty prior service usually apply based on their prior active duty service.

^hBoth DOD and Veterans Affairs provide disability compensation. Since 2005, disabled veterans have been eligible to receive disability compensation from Veterans Affairs and disability retirement from DOD.

Appendix IV: Comments from the Department of Defense and GAO's Response


DEPARTMENT OF DEFENSE
UNITED STATES OF AMERICA
RESERVE AFFAIRS

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, DC 20301-1500

JUN 12 2007

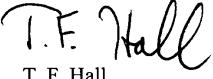
Mr. John H. Pendleton
Acting Director, Defense Capabilities and Management
U.S. Government Accountability Office,
441 G Street, N.W.
Washington, DC 20548

Dear Mr. Pendleton:

This is the Department of Defense (DoD) response to the GAO draft report, GAO-07-828, 'MILITARY PERSONNEL: DoD Needs to Establish a Strategy and Improve Transparency over Reserve and National Guard Compensation to Manage Significant Growth in Cost,' dated May 14, 2007 (GAO Code 350922). The Department has technical concerns and substantive comments on the draft report, and partially concurs with the recommendations. The Department's comments are enclosed.

The primary action officer within DOD for this report is Colonel Nilda Urrutia. She can be reached at (703) 693-8626.

Sincerely,


T. F. Hall

Enclosures:
As stated



**GAO DRAFT REPORT – DATED MAY 14, 2007
GAO CODE 350922/GAO-07-828**

"MILITARY PERSONNEL: DoD Needs to Establish a Strategy and Improve Transparency over Reserve and National Guard Compensation to Manage Significant Growth in Cost"

**DEPARTMENT OF DEFENSE COMMENTS
TO THE RECOMMENDATIONS**

RECOMMENDATION 1: The GAO recommends that the Secretary of Defense establish a clear compensation strategy that includes performance measures to evaluate the efficiency of compensation in meeting recruiting and retention goals, and use the performance measures to monitor the performance of compensation and assess what mix of compensation will be the most efficient in the future.

DOD RESPONSE: Partially Concur. We agree with GAO in the need to analyze the efficiency of the compensation system in meeting recruiting goals, as well as the need to assess what mix of compensation will be the most efficient in the future. However, the Department has been consistent in its compensation strategy and approach to compensation, with priority on cash compensation and emphasizing discretionary authorities to help shape and manage the force. This strategic approach has been consistently communicated to Congress in the form of both oral and written Congressional testimony.

Additionally, DoD has sponsored multiple, and in some cases simultaneous efforts to assess the overarching military personnel compensation strategy. The Defense Advisory Committee on Military Compensation (DACMC) was chartered in 2005 to specifically “identify approaches to balance military pay and benefits in sustaining recruitment and retention of high-quality people, as well as a cost-effective and ready military force.” The DACMC published its report in April of 2006, and the recommendations were used as a point of departure when the 10th Quadrennial Review of Military Compensation, began its work in April of 2006.

RECOMMENDATION 2: The GAO recommends that the Secretary of Defense compile the total costs to provide reserve compensation for both drilling and mobilized reservists and communicate these costs as well as the allocation of these costs among cash, noncash, and deferred compensation to decision makers within the administration and Congress — perhaps as an annual exhibit as part of the President’s budget submission to Congress.

DOD RESPONSE: Partially concur. GAO's recommendation is to improve transparency over total compensation for Reserve component members. We agree with this goal. However, since the costs for a Reserve component members extends to four departments, including Treasury, Veterans Affairs, Labor and Housing and Urban Development, this may be a more appropriate issue for the Office of Management and Budget.

Currently, the Office of Management and Budget (OMB) provides a version of this overview for military compensation (Active Force only) in the annual "Analytical Perspectives: Budget of the U.S. Government" publication. This synopsis includes information provided by the Department of Veterans Affairs and breaks down the funding into "Cash Payments to Members", "In-Kind Payments to Members", and "Accruing Cost of Future Benefits". Furthermore, it identifies major personnel cost drivers, many of which were cited in this draft report.

The Department has discussed with OMB the possibility of expanding this section to include Reserve Component compensation in the next publication.

Comments on Data

There are a number of issues with the presentation of the data in the draft report. The first three issues were initially presented in the review of GAO-05-798, "DoD Needs to Improve the Transparency and Reassess the Reasonableness, Appropriateness, Affordability, and Sustainability of its Military Compensation System," dated June, 2005, which focused mainly on the Active force but which remain relevant for this report.

1. Normalization for the Global War on Terrorism (GWOT)
2. Use of end strength vice average strength (workyears) in per capita calculations for the active duty per capita costs
3. Constant dollar adjustments
4. Average strength calculations – Reserve Components
5. Transparency of mobilized reservists costs

See comment 1.

1. Normalization for GWOT

The draft report fails to normalize or even note the impact of the GWOT on the total cost data for both the reserve components and the updated information for the active duty. The report reference an increase from \$131.7 billion in FY 2000 to \$173.2 billion in FY 2006 (about 32%) for the active duty. However, there is no disclosure in the report that the FY 2006 figure of \$173.2 billion for the active duty includes over \$15.6 billion for

supplemental funding for the GWOT. Recognition of the supplemental impact would reduce the increase from FY 2000 to FY 2006 to 19% vice 32%.

In recognition of full disclosure, recommend that the draft report be modified to address the impact of funding for GWOT.

See comment 2.

2. End Strength vice Average Strength in Per Capita Calculations for the Active Duty

In presenting the per capita cost of a servicemember, the draft report uses active duty end strength levels reported in the Services' justification books instead of the average strength levels. This distorts the per capita figures in 2 ways:

1. End strength reflects an official on-board count of personnel at a single point during the year (September 30th) not the actual number paid throughout the year.
2. The official end strength figures do not include Reserves or National Guardsmen called to active duty for a variety of reasons as detailed in section 115(h) to Title 10, United States Code.

Due to the significant mobilization of the Reserve Components for the GWOT, average strength levels have far exceeded end strength levels since FY 2002. While the draft report does include a footnote in several places stated that the average cost to provide compensation would be lower if these mobilized reserves were considered, this drastically understates the impact of excluding these reserves from the per capita calculations.

See comment 3.

3. Constant Dollar Adjustments

Throughout the draft report, the cost data is presented as "adjusted for inflation" or "2006 Constant Dollars". However, in speaking with GAO, they confirmed that the military pay figures were adjusted using the MILPAY constant dollar deflators from the OUSD (Comptroller) "Greenbook" that is published annually. The MILPay Deflators are designed to adjust for the annual military pay raise. By using these deflators as opposed to another measure such as the Employment Cost Index (ECI) or the Consumer Price Index (CPI), the total cost data is not accounting for the fact that the military pay raises since FY 2000 have been well above the norm. The percent change in the total cost of compensation is an even more significant figure when you consider that it excludes the impact of pay raises averaging over 29.5% between FY 2000 and FY 2006. Over the same period, the ECI for Wages and Salaries of Private Industry Workers increased by 18.9% and the CPI for Urban Wage Earners and Clerical Workers increased by only 16.4%.

Recommend constant dollar adjustments for military pay items be made using either an ECI (Compensation) or CPI (Inflation) index or be left in current year dollars with a discussion of applicable ECI/CPI increases.

**Appendix IV: Comments from the Department
of Defense and GAO's Response**

See comment 4.

4. Average Strength Calculations – Reserve Components

To calculate the part-time per capita costs, GAO's calculations only included the average strengths for Pay Group A and Pay Group B less the average number mobilized based on DMDC CTS data. However, costs associated with Pay Group F and Pay Group P were included in the total costs but the average strengths for these two pay groups were not included to calculate the per capita costs.

This methodology seems flawed in that both pieces, cost and average strength of Pay Group F and Pay Group P, have not been recognized which would result in an overstatement of the part-time per capita costs.

See comment 5.

Recommend that part-time per capita calculations include the average strength of all pay groups.

5. Transparency of Mobilized Reservists Costs

Page 34 of the draft report states that compensation costs for mobilized reservists are difficult to determine within the active components budgets, in part, because they are paid out of the supplemental funding the active components' receive for the global war on terrorism.

The Department made a conscious decision to improve the transparency of these costs within the Services' submission of their Supplemental Requests to Congress. The FY 2007 and FY 2008 supplemental submissions include detailed cost estimates of Reserves called to active duty.

Recognition of this increased transparency needs to be noted.

Consolidated Technical and Substantive Comments

See comment 6.

Page	Para	Sent.	Section	Comments
High-lights	2	3	What GAO Found	Reserve Retired pay has not changed, nor did DoD seek the TRICARE Reserve Select.
2	Foot-note # 2	2	Letter to Congressional Committees	This sentence is misleading – not living in close proximity to a military base doesn't affect eligibility.
4	3	1	Letter to Congressional Committees	After "full-time support personnel" insert "serving in the Active Guard and Reserve (AGR) Program". Full-time support personnel is a broader category that includes regular component members assigned to a reserve unit or command and civilian personnel, including military technicians.

See comment 7.

See comment 8.

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of Defense and GAO's Response**

See comment 9.

See comment 10.

See comment 11.

See comment 12.

See comment 13

See comment 8.

See comment 8.

See comment 8.

See comment 14.

See comment 15.

Page	Para	Sent	Revision	Comments
4-5	3	2	Letter to Congressional Committees	Were only mobilized personnel excluded or all personnel serving on active duty? Some personnel serving on active duty are paid from Reserve personnel appropriations or through OM appropriations that are reimbursed to reserve personnel appropriations.
5	1	3	Letter to Congressional Committees	Unclear how the total cost of the RC can be determined if segments of that cost (e.g. mobilization) are excluded.
7	1	2>	Results in Brief	This paragraph should make it clear that the increases in deferred compensation were not requested by DoD. DoD has constantly pursued discretionary compensation authorities which allow DoD to target compensation on specialties for which there is a critical shortage of personnel.
8	2	1	Results in Brief	Inconsistent with costing methodology described on previous page, which excludes mobilization.
9	1	1	Results in Brief	Are they paid out of active component budgets or supplementals?
10	2	3	Background	Insert: "active duty for" after "scheduled drilling and".
11	1	1	Background	Replace sentence that begins: "About 9 percent of the Selected..." with: "On average, between fiscal years 2000 through 2006, about 9 percent of the Selected Reserve average strength served in the AGR program. Those members in the AGR program serve full-time performing duties associated with organizing, administering, recruiting, instructing or training the various Reserve components."
11	1	2	Background	Replace sentence with: "By DoD policy, the Individual Ready Reserve and the Inactive National Guard do not currently have these drilling and training requirements. The Individual Ready Reserve is comprised principally of individuals..."
11	1	6	Background	At the end of the paragraph add: "The Inactive National Guard Army National Guard personnel in an inactive status not in the Selected Reserve who are attached to a specific National Guard unit but do not participate in training activities. Upon mobilization, they will mobilize with their units. In order for these personnel to remain members of the Inactive National Guard, they must muster once a year with their assigned unit."
11	2	1	Background	Replace the first sentence with: "DOD's selected reservists serve in one of six reserve components: the

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See comment 8.

See comment 24.

See comment 8.

See comment 16.

See comment 8.

See comment 17.

See comment 18.

See comment 19.

See comment 8.

Page	Para	Sent	Section	Comments
				Army National Guard, the Army Reserve, the Navy Reserve, the Marine Corps Reserve, the Air National Guard and the Air Force Reserve.”
11	2	3	Background	Insert: “by the governor” after “it is available for use”
14	Table	Table	Table 1	See Enclosure 2
17	1	3	Cost to Compensate Reserve and Guard Personnel Has Increased Significantly Since Fiscal Year 2000	The data show that retention has been fairly stable over this time period. The challenge has been recruiting
18	1	Last	Cost to Compensate Reserve and Guard Personnel Has Increased Significantly Since Fiscal Year 2000	Delete: “the Global War on Terrorism related operations, such as security.” After “due to” insert: “programmed growth.” It is not because of GWOT, or specific operational missions. AGRs are there to organize, administer, train, instruct, recruit, etc.
18	Foot-Notes	1	Cost to Compensate Reserve and Guard Personnel Has Increased Significantly Since Fiscal Year 2000	Delete everything after “justification books”; insert period after “books”. Add: “The DoDI on full-time support defines those Selected Reserve members who are on active duty or full-time National Guard Duty to organize, administer, recruit, instruct and train Reserve component members as Active Guard and Reserve. However, some Services refer to AGRs as Active Reserve (AR) or full-time support (FTS).”
18	Foot-notes	2	Cost to Compensate Reserve and Guard Personnel Has Increased Significantly Since Fiscal Year 2000	Replace “full-time reservists” with “AGRs” in the 1 st and 2 nd sentences.
24	1	5	Cost to Compensate Reserve and Guard Personnel Has Increased Significantly Since Fiscal Year 2000	This statement does not take into consideration that DoD will now only be providing compensation for limited duty periods rather than full-time, therefore resulting in an overall cost saving.
24	2	2	DoD Does Not Know the Extent to Which Its Mix of Compensation is Meeting Its Human Capital Goals	DoD has not sought to increase deferred compensation, but rather discretionary authority for cash compensation and pay increase, to remain competitive with other employers.
25	2	4	DoD Does Not Know the Extent to Which Its Mix of Compensation is Meeting Its Human	Delete: “and retention” Insert “in some Reserve components” after “challenges”

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See comment 20.

See comment 21.

See comment 21

See comment 22.

See comment 8.

See comment 23.

See comment 24.

Page	Para	Sent	Section	Comments
			Capital Goals	
25	2	5	DoD Does Not Know the Extent to Which Its Mix of Compensation is Meeting Its Human Capital Goals	Not accurate as written – the amount of the bonuses has not increased by 1000% - the amount paid from appropriations has increased. Bonus amounts have doubled or tripled in some cases, but not increased by 1000%.
26	2	1-3	DoD Does Not Know the Extent to Which Its Mix of Compensation is Meeting Its Human Capital Goals	This entire paragraph is misleading. While it correctly points out the effectiveness of cash compensation to deferred compensation. However, it fails to point out DoD has not sought to increase deferred compensation and has opposed provisions that would expand deferred compensation.
28	2	Last	DoD Does Not Know the Extent to Which Its Mix of Compensation is Meeting Its Human Capital Goals	This statement should acknowledge that DoD has been pursuing a strategy described in the preceding paragraph – cash and discretionary authorities.
30	2	All	Cost to Compensate Reserve and Guard Personnel Has Increased Significantly Since Fiscal Year 2000	This paragraph fails to take into consideration recent independent research DoD has sponsored on the effects of various forms of compensation and its efforts to avoid new or enhanced forms of compensation based on that research, that does not achieve force management objectives.
32	1	1	DoD Does Not Have Transparency Over Total Costs of Reserve Compensation	As reads: “includes”, to read “include”.
34	3	4	DoD Does Not Have Transparency Over Total Costs of Reserve Compensation	After “difficult to complete” insert: “,except in the Marine Corps, which already has an integrated pay and personnel system”
48	App.	App.	Appendix III	See Enclosure 3

GAO Response to Department of Defense's Technical Comments

The Department of Defense (DOD) made comments on the presentation of the data in our report and raised a number of technical concerns. Our response to DOD's technical comments follows.

1. DOD commented that we did not adequately describe the impact of the increase in funding related to the Global War on Terrorism. In its comments, DOD stated that in fiscal year 2006 more than \$15.6 billion of the \$173.2 billion in compensation costs were supplemental funding for the Global War on Terrorism. While it is true that our estimates include supplemental funding, we do not believe that the inclusion of this funding changes our findings or conclusions. Costs paid from supplemental funding represents real costs to the federal government that we believe are appropriate to include when calculating how much the federal government spends on compensating military servicemembers. However, we understand DOD's concern, and footnotes in the report that explain our approach are sufficient. Furthermore, we believe that DOD's comment illustrates the importance of providing greater transparency over mobilized reservists' costs. As we have previously testified, with Global War on Terrorism costs likely to continue for the foreseeable future, it is becoming increasingly important that DOD move those costs into the baseline budget as the level of effort becomes better known and is more predictable.¹ Greater transparency over costs would provide administration and congressional decision makers more information to make fact-based decisions and weigh competing priorities for the nation's resources.
2. DOD did not disagree with our overall finding that active duty compensation costs to the government have increased since fiscal year 2000. However, DOD stated that our reliance on end strength numbers for active duty personnel distorts active duty per capita costs calculations because that number does not include mobilized reservists. We did note in the report that mobilized reservists are paid out of active duty cash compensation costs and that our active duty per capita cost estimates do not take these mobilized reservists into account, and acknowledge in the report that the per capita costs to provide compensation would be lower if these mobilized reservists were taken into consideration. DOD's concern further highlights the need for the department to establish greater transparency over the costs of reservists. As we state in this report, accounting for mobilized

¹ GAO, *Global War on Terrorism: Observations on Funding, Costs, and Future Commitments*, GAO-06-885T (Washington, D.C.: July 18, 2006).

reservists is problematic, given that they count against reserve end strength numbers but are paid out of active duty accounts.

3. DOD raised concerns about the adjustments we made in our data to account for inflation, and felt that the deflators, or price indices, we chose understated the real growth in compensation costs between fiscal years 2000 and 2006. We are aware that the price indices we used make our growth estimates conservative and that other indices would show similar or greater growth. We recognize that in examining the growth of military compensation over time, the division of this growth between real growth and growth due to inflation depends on the price index or deflator used to adjust for inflation. For example, when dividing total growth in compensation between real growth and growth due to inflation, a higher rate of inflation will produce a lower real growth rate, and vice versa. We used the deflators for military pay that are contained in the National Defense Budget Estimates for fiscal year 2007 that are published by the Office of the Under Secretary of Defense of the Comptroller because they represent the official DOD indices for military pay budget matters. This office produces several different deflators or price indices that DOD uses officially to adjust dollars amounts for inflation for different budgetary purposes, such as procurement or operations and maintenance. We recognize, as DOD suggested in its comments, that we could have used the Employment Cost Index or the Consumer Price Index (for Urban Wage Earners and Clerical Workers) to adjust for inflation. Although DOD suggested the Employment Cost Index for wages and salaries would have been a more appropriate price index, we would have used the Employment Cost Index specific for total compensation for the private sector, because the military compensation number we calculated included more than wages and salaries. For example, in addition to wages and salaries we also included such things as allowances for housing and subsistence and retirement pay accrual. As we previously stated in our report, we used the military pay deflator and found that reserve compensation costs grew at a real rate of 47 percent from fiscal year 2000 to fiscal year 2006. When we redid our calculations using the Employment Cost Index, we found that reserve compensation costs grew 48 percent from fiscal year 2000 to fiscal year 2006. When we redid our calculations using the Consumer Price Index, we found that reserve compensation costs grew 55 percent from fiscal year 2000 to fiscal year 2006. However, we note that DOD does not use this index to prepare its military personnel budgets.
4. DOD commented that the calculation of the part-time reservists should have included pay groups for initial entry reservists in the average

strength. We agree and changed our data to include the pay groups for the initial entry reservists in the average strength.

5. DOD commented that the department made a conscious decision to improve the transparency of compensation costs of mobilized reservists starting in the fiscal year 2007 supplemental submission. We agree that the services have taken the first step of displaying these costs as part of the supplemental request; however, we believe the department would benefit from greater transparency over these costs, including presenting them as part of a complete picture of compensation costs in the military personnel justification books.
6. The sentence in question does not discuss whether or not reserve retirement pay has changed or whether DOD sought the TRICARE Reserve Select program; it simply provides examples of deferred compensation. However, we altered the sentence for clarity to reflect that we were talking about health care benefits for retirees.
7. We adjusted the language for clarification to reflect the fact that not living in close proximity to military bases does not effect eligibility.
8. We adjusted the language as suggested.
9. We changed the sentence to reflect the fact we are referring to mobilized personnel only.
10. We specify in the introduction of the report that we limited our scope to, part-time, drilling reservists, and full-time support personnel serving in the Active Guard and Reserve program of the Selected Reserve. We excluded reserve and guard members who were mobilized from our cost estimates. We defined our scope based on cost information presented by DOD in the budget justification books. These books present the cost of part-time and Administration and Support personnel.
11. Our Results in Brief now show that DOD has testified that adding deferred compensation is not their preference.
12. We excluded mobilized reservists from our cost estimates because their costs are not presented in the reserve justification books. However, we believe that the total costs of the Guard and reserve should include the cost for mobilized reservists and that the department should take steps to provide greater transparency over all compensation costs for decision makers to make fact-based decisions.

13. We added language to clarify that mobilized reservists are paid out of supplemental funding.
14. We addressed the comment by adding a footnote to the section.
15. We reordered the presentation of the reserve components as suggested.
16. Agency officials told us that ongoing operations had been part of the reason for the increase in full-time reservists during the course of the review. However, we deleted the sentence as requested in the department's formal comments.
17. We defined our use of the term full-time reservists to mean Active Guard and Reserve in the introduction of the report.
18. This statement is referring to reserve compensation costs as they are currently presented to decision makers in the justification books. However, we added "reserve" into the sentence for further clarification.
19. The report did not state that DOD has sought increases in deferred compensation, so no change was needed.
20. The sentence refers to the cost of the program to the government and not to bonuses received by individuals.
21. We added a statement to acknowledge that DOD has not sought some recent additions to deferred compensation, specifically TRICARE for life. However, DOD has not formally assessed the appropriate mix of compensation and has not developed a written policy or document that specifies the department's overarching strategy for compensation.
22. While it is true that DOD has sponsored a study assessing the use of compensation under a reserve continuum of service concept, we continue to believe that DOD has not developed any performance measures to regularly and systematically assess all types of compensation. The study points out the effectiveness of targeted compensation. This is an example of the foundation for the compensation strategy we are recommending DOD formalize.
23. The focus of our reports in 2005 and 2007 was on the difficulties with rolling out the Defense Integrated Military Human Resources System rather than on any particular service system.

**Appendix IV: Comments from the Department
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24. DOD provided separate enclosures, in addition to its agency comments, that provided technical comments on tables in our report. We made those changes as suggested.

Appendix V: GAO Contact and Staff Acknowledgments

GAO Contact

John Pendleton, (404) 679-1900 or pendletonj@gao.gov

Acknowledgments

In addition to the contact named above, David Moser, Assistant Director; Lori Atkinson, Ben Bolitzer, Renee Brown, Linda Keefer, Susan Langley, Julia Matta, Erin Noel, Charles Perdue, Rebecca Shea, Kathryn Smith, and Sonja Ware made key contributions to this report.

Related GAO Products

Military Personnel: DOD Needs Action Plan to Address Enlisted Personnel Recruitment and Retention Challenges. [GAO-06-134](#).
Washington, D.C.: November 17, 2005.

Defense Health Care: Health Insurance Stipend Program Expected to Cost More Than TRICARE But Could Improve Continuity of Care for Dependents of Activated Reserve Component Members. [GAO-06-128R](#).
Washington, D.C.: October 19, 2005.

Military Personnel: DOD Needs to Improve the Transparency and Reassess the Reasonableness, Appropriateness, Affordability, and Sustainability of Its Military Compensation System. [GAO-05-798](#).
Washington, D.C.: July 19, 2005.

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Washington, D.C.: March 16, 2005.

DOD Systems Modernization: Management of Integrated Military Human Capital Program Needs Additional Improvements. [GAO-05-189](#).
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Military Personnel: Management and Oversight of Selective Reenlistment Bonus Program Needs Improvement. [GAO-03-149](#). Washington, D.C.: November 25, 2002.

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